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# East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2294

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16 July 1982

# EAST EUROPE REPORT

## ECONOMIC AND INDUSTRIAL AFFAIRS

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CEMA, EEC FOREIGN TRADE TURNOVER DISCUSSED

Warsaw HANDEL ZAGRANICZNY in Polish No 1-2, 1982 pp 30-34

[Article by Jerzy Sleszynski: "CEMA and EEC Foreign Trade Turnovers: Criterion of the Intensity of Trading Ties"]

[Text] Integration, integrating--we have been meeting these concepts exceptionally often in recent years. Regardless of the context in which they are used, the semantic meaning of both these terms does not deviate from their colloquial interpretation. The process of integration is usually construed as combining, meshing, and creating a whole from discrete elements. Analysis of concrete economic, political, sociological, or psychological phenomena requires, of course, a more detailed formulation of the attributes and properties distinguishing integrative actions from processes of other kinds: economic integration is defined as the development of a unified, coherent economic organism comprising at least two discrete elements that form its structure. By the same token, international economic integration denotes the formation of an economic organism comprising at least two countries linked by strong and permanent structural bonds of an economic nature.<sup>1</sup> Here it is also worth noting that distinguishing between, say, "economic integration" and "political integration" is rather of a purely theoretical nature: in practice, what occurs is a coherent social-economic-political complex whose disaggregation is often not possible. When speaking of economic integration we inevitably encroach upon the domain of foreign policy and social policies.

The course of the process of international integration is relatively slow and manifests itself in nearly every sphere of the functioning of national economies. Proceeding in some chronological order, one can mention here: assumption of diplomatic contacts, foreign trade, long-range agreements for foreign trade, combining of international markets, a broadly interpreted cooperation (scientific and technical cooperation, joint economic ventures), and ultimately the attainment of a solid position in the international division of labor. Trade is an essential factor in the integrative process, and for most countries and blocs it is the dominant factor. The intensity of trading ties linking partners is of an objective nature, independent of the motivation of the participants or the manner in which the ventures are carried out. Flows of trade between or among countries or groups of countries are of an integrative nature regardless of the socio-political context.

The scale of the flows of trade is of limited informational value to analyses of time cross sections or "non-comparable" economic organisms. In such cases, the yardsticks of the intensity of trading ties are irreplaceable since, by converting absolute values, they provide the necessary data for resolving the problem of estimating the flow of trade between or among selected countries in face of other trading contacts analyzed in a particular comparison. A broad range of diverse criteria for a broad evaluation of the structure of international trade is presented in the work by J. Kotynski.<sup>2</sup> Most often the conducted analyses of integrative processes are based on the use of only a few criteria of intensity [of trading ties], thus narrowing the range of possible interpretations. The most often used yardsticks of this kind are the so-called delta coefficients, especially in the normalized form proposed by G. Fink.<sup>3,4,5</sup> The suitability and efficacy of this analytic method are unquestioned, but this should not preclude comparison with other findings (derived by using other criteria) as well as the indispensable discussion of the findings in the context of their differentiated economic interpretation. The present article is an attempt to verify several criteria of the intensity of foreign trade, as based on uniform data on foreign trade turnover in 1975.

The structure of international trade is formed by the following groups of countries: the EEC, the other industrialized countries, the CEMA, the other socialist countries, the OPEC, and the other developing countries. The classification of countries in the discrete groups is in accord with that given in the MONTHLY BULLETIN OF STATISTICS, a periodical publication of the United Nations. The basic definitions will be presented in an abridged manner, because they already have been twice cited in full in previous articles published in HANDEL ZAGRANICZNY. This also applies to the interpretation of the delta coefficient in its normalized form.

The theoretical construct on which all the criteria presented here are based is the matrix of the flows of international trade, which comprises mutual flows of goods, services, or capital between discrete groups of countries. The following notation has been adopted:  $x_{ij}$ , the flow of international trade from the group of countries  $i$  to the group of countries  $j$ , for  $n$  groups of countries  $i, j: 1, 2, \dots, n$ ;  $x_i$ , the aggregate amount of exports by the group of countries  $i$ ;  $x_j$ , the aggregate amount of imports by the group of countries  $j$ ;  $x..$ , the aggregate volume of international trade turnover.

This satisfies the basic balance-sheet requirement: the aggregate volume of international foreign trade turnover equals the sum total of all flows of trade among discrete groups of countries. By the same token, the aggregate volume of exports in international trade equals the aggregate volume of imports.

Table 1 presents the input matrix of flows of foreign trade on the basis of which the various criteria of the intensity of trading ties will be measured.

Table 1. Matrix of the Flows of Foreign Trade for Specified Groups of Countries in 1975 (in US\$ billion, f.o.b.)

Consignor Consignee	EEC	Other indus- trialized countries	OPEC	Other developing countries	CEMA	Other socialist countries	Exports
EEC	145.93	76.14	22.85	32.08	14.51	1.59	293.10
Other indus- trialized countries	66.67	114.08	24.80	58.76	13.35	3.99	281.45
OPEC	39.17	45.50	0.39	22.77	1.98	0.06	109.87
Other developing countries	22.69	42.35	6.37	18.84	7.01	0.77	98.03
CEMA	10.44	9.76	2.64	7.59	44.37	1.96	78.76
Other socialist countries	0.82	2.04	0.51	2.58	1.24	... (1)	7.19
Imports	285.72	289.87	57.36	142.63	82.46	8.37	866.40

SOURCE: Data of MONTHLY BULLETIN OF STATISTICS. Own treatment of data.  
(1) Lack of data.

The first to be presented will be the findings derived with the aid of the Hirschman concentration coefficients. The degree of concentration estimated pertains to the aggregate exports or imports of discrete groups of countries and at the same time it reveals the degree of concentration of foreign trade in the selected groups of countries. The Hirschman criterion is based on the fundamental structural relationships of the matrix of trade flows, and it is determined as the square root of the sum of discrete markets in the aggregate imports or exports of the analyzed group of countries. The normalized coefficient lies within the (0, 1) range. In the event of total concentration of exports or imports the value of the coefficient is 1, while its 0 value corresponds to a uniform spread of imports or exports among all the participants in foreign trade included in a given comparison. Table 2 presents Hirschman coefficients calculated separately with both allowance for and disregard of trade turnovers among the countries belonging in a given group. For both exports and imports the coefficients pertaining to EEC, CEMA, and OPEC are the highest, since in the pertinent calculations we allow for internal turnover within these blocs. On the other hand, disregard of internal turnover reveals explicit differences among the blocs. For the OPEC countries the coefficient remains at an unchanged high level, which means a nearly total concentration of exports and imports in countries not belonging to that bloc. For the EEC and CEMA countries the exclusion of internal turnover results in a decline in the value of the coefficient, and for CEMA countries this decline is much more marked. Although the Hirschman criterion is termed a "concentration coefficient," in reality it provides direct information on the intensity of foreign trade between distinct groups (blocs) of countries. Two versions of the criterion may be used for purposes of

comparison to evaluate the intensity of internal trading ties within individual groups of countries.

Table 2. Hirschman Concentration Coefficients for Six Groups of Countries in 1975

EXPORTS

$$\left[ \text{for exports } M_i = \frac{1}{1-\sqrt{n}} - \frac{\sqrt{n}}{1-n} \sqrt{\frac{n}{\sum_{j=1}^n \left( \frac{x_{ij}}{x_i} \right)^2}} \right]$$

	Allowing for internal trade within the bloc	Excluding internal trade within the bloc
EEC	0.58	0.30
Other industrialized countries	0.52	0.33
OPEC	0.58	0.58
Other developing countries	0.54	0.50
CEMA	0.01	0.22
Other socialist countries	0.51	0.51

IMPORTS

$$\left[ \text{for imports } M_{.j} = \frac{1}{1-\sqrt{n}} - \frac{\sqrt{n}}{1-n} \sqrt{\frac{n}{\sum_{i=1}^n \left( \frac{x_{ij}}{x_{.j}} \right)^2}} \right]$$

	Allowing for internal trade within the bloc	Excluding internal trade within the bloc
EEC	0.58	0.28
Other industrialized countries	0.52	0.34
OPEC	0.60	0.60
Other developing countries	0.52	0.50
CEMA	0.60	0.29
Other socialist countries	0.57	0.57

Another criterion proposed by Hirschman is the coefficients of trade preference with respect to trade with "small" countries, with a country's size being identified with its share in international trade. Hirschman's position is that foreign trade may serve to make partners interdependent. The decisive factor is the selection of "large" or "small" countries as main customers. The degree of the spread of trade turnover may serve to estimate the degree of advancement of such factors. To an analysis of integrative processes it is more essential to identify the preferences practiced by the groups of countries forming associations of an integrative nature. When the criterion exceeds unity, this means preference for smaller customers or suppliers. When the R is contained within the (0, 1) range, this points to the

concentration of exports or imports within the groups of countries with the largest share in international trade turnover.  $R = 1$  corresponds to a situation in which the exports or imports of a given group of countries are uniformly distributed among all partners. Table 3 presents findings which indicate that the OPEC, for example, is extremely dependent on the countries with the largest trade potential. Of course, when thus interpreted, the dependence need not fully correspond to economic and political realities, and it requires additional interpretation. In the particular case when exports are limited to a single extremely valuable commodity (crude petroleum), it is rather the principal importers (the EEC and the industrialized countries) that are dependent on the monopoly of the Arab countries. The highest values of the preference coefficients pertain to the exports and imports of CEMA--a bloc which places a premium on internal trade exchange at the expense of contacts with the potentates of world trade. A valuable complement as well as another attempt at a practical application of the presented Hirschman criteria may be Tables 4 and 5, which estimate the preferences present within the most highly integrated economic groupings.

Table 3. Hirschman Preference Coefficients for Six Groups of Countries in 1975

$$\text{EXPORTS: } \left[ R_i = \frac{\sum_{j=1}^n \frac{x_{ij}}{x_{.j}} : n \frac{x_{i.}}{x_{..}} \right]$$

EEC	0.86
Other industrialized countries	1.08
OPEC	0.65
Other developing countries	0.95
CEMA	1.77
Other socialist countries	1.04

$$\text{IMPORTS: } \left[ R_j = \frac{\sum_{i=1}^n \frac{x_{ij}}{x_{i.}} : n \frac{x_{.j}}{x_{..}} \right]$$

EEC	0.80
Other industrialized countries	0.99
OPEC	0.85
Other developing countries	1.19
CEMA	1.64
Other socialist countries	0.92

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SOURCE: Own data

Table 4. Hirschman Preference Coefficients for European Countries Belonging to CEMA in 1976

<u>Country</u>	<u>For exports</u>	<u>For imports</u>
USSR	1.5129	1.5814
GDR	1.0901	1.0365
Czechoslovakia	1.0085	1.0124
Poland	0.9707	0.9450
Hungary	0.9090	0.9120
Romania	0.9323	0.9921
Bulgaria	0.7740	0.7180

SOURCE: Own data

Table 5. Hirschman Preference Coefficients for EEC Member Countries in 1976

<u>Country</u>	<u>For exports</u>	<u>For imports</u>
FRG	1.1542	1.2281
France	1.2324	1.0088
Holland	0.9236	0.9953
Belgium/Luxembourg	0.9139	0.9121
Italy	0.8065	0.9070
Great Britain	1.9651	2.0422
Denmark	1.0755	0.8948
Ireland	1.2283	1.3710

SOURCE: Own data

A more complex interpretation applies to the coefficients of standardized trade dependence formulated by Beckerman. They are intended to reveal the degree of dependence of individual trade partners on their share in discrete flows of exports or imports. Thus, now dependence is construed as the importance of a particular type of exports or imports to the entire structure of the trading ties of a given group of countries. The criterions proposed by Beckerman are expressed in the formulas accompanying Tables 6 and 7. These coefficients are normalized within the (1, n) range, and a comparison of a series of coefficients pertaining to different flows of trade provides sufficient premises for evaluating the importance of the volume of particular exports or imports. This precludes the effect of overall exports by exporter and imports by importer, which objectivizes the assessment of the nature of bilateral trade contacts. Tables 6 and 7 present the resulting findings. The coefficients with the highest values pertain to trade flows within the CEMA, while those with lowest values pertain to the trade turnover of the OPEC states. The Beckerman coefficients, like the Hirschman coefficients, essentially reveal which international trade routes are most intensively used. The absolute figures on trade flows are interpreted for a coherent system of interdependences derived from the structure of the matrix of foreign trade flows.

Table 6. Coefficients of Standardized Dependence on Exports

$$\left( SXD_{ij} = n \frac{x_{ij}}{x_{.j}} : \sum_{j=1}^n \frac{x_{ij}}{x_{.j}} \right) \text{ for Six Groups of Countries in 1975}$$

Consignee \ Consignor						
	EEC	Other industrialized countries	OPEC	Other developing countries	CEMA	Other socialist countries
EEC	1.74	0.90	1.36	0.76	0.00	0.64
Other industrialized countries	0.67	1.12	1.22	1.18	0.46	1.37
OPEC	1.66	1.91	0.08	1.94	0.29	0.09
Other developing countries	0.74	1.36	1.03	1.23	0.79	0.85
CEMA	0.23	0.21	0.29	0.34	3.43	1.49
Other socialist countries	0.34	0.82	1.03	2.10	1.74	...

SOURCE: Own data

Table 7. Coefficients of Standardized Dependence on Imports

$$\left( SMD_{ij} = \frac{x_{ij}}{x_{i.}} : \sum_{i=1}^n \frac{x_{ij}}{x_{i.}} \right) \text{ for Six Groups of Countries in 1975}$$

Consignee \ Consignor						
	EEC	Other industrialized countries	OPEC	Other developing countries	CEMA	Other socialist countries
EEC	1.89	0.81	1.39	0.55	0.32	0.61
Other industrialized countries	0.90	1.26	1.55	1.06	0.30	1.60
OPEC	1.35	1.29	0.06	1.06	0.12	0.07
Other developing countries	0.88	1.34	1.15	0.98	0.46	0.88
CEMA	0.51	0.40	0.61	0.50	3.70	2.87
Other socialist countries	0.44	0.89	1.26	1.83	1.10	...

SOURCE: Own data

Interpreting the matrix of the flows of foreign trade in terms of the calculus of probability makes it possible to introduce the correlation coefficient as yet another criterion of the intensity of trading ties. Suppose the random variable  $U_i$  means that the group of countries  $i$  acts as an exporter, and the random variable  $V_j$  means that the group of countries  $j$  acts as an importer. The random variables are determined for a population consisting of  $x_{..}$  units of trade flows. Assuming the independence of the random variables, we derive a simple formula that must be satisfied by the trade flow corresponding to the adopted assumption:  $x_{ij} = x_{i.}x_{.j} : x_{..}$ . The correlation coefficient is in this context written as:

$$r_{ij} = \frac{p(U_i V_j) - p(U_i)p(V_j)}{\sqrt{p(U_i)[1-p(U_i)]p(V_j)[1-p(V_j)]}} \quad i, j = 1, 2, \dots, n$$

$$\text{where } p(U_i) = \frac{x_{i.}}{x_{..}}; p(V_j) = \frac{x_{.j}}{x_{..}}; p(U_i V_j) = \frac{x_{ij}}{x_{..}}$$

The specific nature of the findings derived with the aid of the correlation coefficient is determined by the covariance present in the numerator of the above formula. This covariance represents the differential yardstick of the deviation of the actual volume of trade flow from the hypothetical volume ensuing from the premise of the independence of the random variable. The correlation coefficient lies within the range (0, 1). Table 8 contains coefficients estimating discrete trade flows. It is readily seen that the absolute value of the difference between  $x_{ij}$  and  $x_{ij}$  determines the value of the coefficient. A major role is played by the scale itself of the process of trade exchange, and thus the highest estimates of the intensity of trade flow pertain to the groups of countries with the highest export and import turnovers. The correlation coefficient for internal turnover within CEMA is here twice as high as its counterpart for EEC. In this comparison, the most disintegrated pattern is revealed for the exports from other socialist countries to the OPEC countries. The high estimate of internal trade ties within CEMA is the exception proving the rule that the maximum value is to be assigned to the trade flows that are highest in absolute value. Noteworthy here is the comparison with the normalized delta coefficient—a criterion of a relative (mathematical product) nature.

Table 8. Matrix of Correlation Coefficients for Six Groups of Countries in 1975

Consignor \ Consignee	EEC	Other industrialized countries	OPEC	Other developing countries	CEMA	Other socialist countries
EEC	0.2558	-0.1134	0.0340	-0.1066	-0.1110	-0.0302
Other industrialized countries	-0.1372	0.1041	0.0592	0.0823	-0.1128	0.0327
OPEC	0.0217	0.0643	-0.0954	0.0438	-0.1004	-0.0368
Other developing countries	-0.0745	0.0763	-0.0013	0.0264	-0.0291	-0.0064
CEMA	-0.1287	-0.1372	-0.0396	-0.0550	0.5132	0.0502
Other socialist countries	-0.0423	-0.0093	-0.2168	0.0470	0.0226	-0.0112

SOURCE: Own data

If we proceed from the premise of the independence of the random variables  $U_i$  and  $V_j$ , the delta coefficient compares the actual and the hypothetical volumes of trade flow. The normalized delta coefficient has values lying within the



range (-1, 1), with the 0-level corresponding to a situation in which instances of occurrence of country i in the role of an exporter and country j in the role of an importer in the same transaction can be regarded as independent random variables. The value 1 corresponds to the maximum intensity of trade flow and -1, to minimum intensity. A normalizing formula has been proposed by G. Fink.<sup>6</sup>

The value of the criterion dsi is not decided by the scale of the process of trade exchange. The relative nature of this criterion causes the highest prices to pertain to strongly directional trade flows based on explicit trade preferences. A premium is placed on those trade flows--even if they are relatively small in value--which reflect the mutual preferences of the exporter and the importer.

The findings derived in Table 9 differ for this reason from the previously presented findings. True enough, the highest values of dsi again pertain to the internal trade turnovers within the CEMA and the EEC, but essentially the delta coefficient and the correlation coefficient measure the intensity of trade ties on proceeding--as has been elucidated above--from two different interpreting conventions. The correlation coefficient provides a distinctly lower estimate of trade flows that are low in value. The delta coefficient, especially in its normalized form, links the analyzed trade flow to a hypothetical trade flow, relatively speaking, eliminating in its turn the value of the scale of the trade exchange performed.

Table 9. Matrix of Criteria of Scale of Integration dsi\* (Diagnostic Scale of Integration) for Six Groups of Countries in 1975

Consignor	Other					
Consignee	EEC	indus- trialized countries	OPEC	Other developing countries	CEMA	Other socialist countries
EEC	0.2606	-0.2236	0.0908	-0.3351	-0.4799	-0.4385
Other indus- trialized countries	-0.2817	0.1063	0.1541	0.1291	-0.5016	0.2249
OPEC	0.0399	0.1197	-0.9464	0.0510	-0.8107	-0.9435
Other developing countries	-0.2981	0.1464	-0.0185	0.0330	-0.2487	-0.1869
CEMA	-0.5876	-0.6200	-0.4805	-0.3993	0.5286	0.1597
Other socialist countries	-0.6542	-0.1520	0.0051	0.2325	0.0846	...

SOURCE: Own data

\*dsi is the normalized delta coefficient 
$$ij = \frac{x_{ij} x_{..}}{x_{.j} x_{.i}} = \frac{x_{ij}}{x_{ij}}$$

Here it is difficult to speak of a general summation. It appears that all the presented criterions should find application in analyses of the matrix of trade flows. It is essential to draw attention to the proper interpretation of the resulting findings, because in many cases the ultimate meaning of figures can be decided by a subjective choice of the criterion. Only an exhaustive commentary defining the scope of analysis and the basic concepts such as economic integration and international integration can provide the appropriate conditions for a proper product of analysis. Although, as presented above, the correlation coefficients and the criterion dsi of a certainty reflect the intensity of trade exchange, the application of one of them makes sense in a specific conceptual-definitional system associated with the slogan of integration. Many studies, such as that of J. Kotynski,<sup>7</sup> provide interesting research tools whose practical utilization is, however, meeting with resistance. Nonetheless, the tables presented above demonstrate that such a labor is worth undertaking, that it can be fruitful, and that it opens vistas of further and broader analyses.

#### FOOTNOTES

1. J. Sleszynski, "Structure of Flows of International Trade and Problems of Integration," HANDEL ZAGRANICZNY, No 2, 1980.
2. J. Kotynski, "Struktura handlu miedzynarodowego. Metody oceny" [Structure of International Trade. Methods of Assessment], PWE, Warsaw, 1979.
3. G. Fink, "Measuring Integration--A Diagnostic Applied to EEC, CMES and East-West Trade 1938-1975," WIIW Vienna, FORSCHUNGSBERICHTE, No 42, 1977.
4. Sleszynski, op. cit.
5. J. Sleszynski, "Internal Trade Exchange of CEMA Countries and Integration," HANDEL ZAGRANICZNY, No 7/8, 1980.
6. Fink, op. cit.
7. Kotynski, op. cit.

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CSO: 2600/652

## INTERNATIONAL AFFAIRS

### BRIEFS

YUGOSLAV-SOVIET TRADE--The Yugoslav Economic Chamber section on economic relations with the USSR is searching for ways of implementing the trade program, especially in new fields of cooperation, to replace those [parts of the program] which cannot be carried out as planned. This year the Yugoslav side will have a marked surplus, and now is the time for both sides to agree on how to balance the trade program. One-third of Yugoslav exports planned for 1982 and one-fifth of Yugoslav imports have been carried out thus far in the total \$7 billion plan. Yugoslavia accounts for 4 percent of all Soviet imports; this is a high percentage considering the USSR's membership in CEMA and the large difference in physical potential of the two economies. According to data available to the section, as of 1 June business contracts have been concluded for exporting \$2.75 billion worth of goods from Yugoslavia, or 87.8 percent of the 1982 plan, while \$2.505 billion worth of Soviet exports have been contracted for, or 90.5 percent of the plan. [Excerpt] [Belgrade PROVREDNI PREGLED in Serbo-Croatian 29 Jun 82 p 1]

CSO: 2800/416

## CATTLE PRODUCTION TRENDS DESCRIBED

Bratislava EKONOMIKA POLNOHOSPODARSTVA in Czech No 4, 1982 pp 222-225

[Article by Professor Engr Jan Vachal, DrSc, Research Institute of Livestock Production, Uhrineves, and Engr Ludek Sereda, State Breeding Enterprises, General Directorate in Hradistko: "Plans for the Development of Cattle Production"]

[Text] Social development, the political and economic changes directly determine the development of agriculture as a whole, and hence also the development of cattle production. The different structure and state of agriculture and of cattle production in individual countries are sufficiently edifying in this respect, and to a considerable extent the differences can be attributed to different political and economic systems.

Cattle production in the CSR underwent an intensive development in the postwar period. After a temporary decline of the results in the 1950's, there has been a resounding improvement particularly in the past decade. This is evident from the data in Table 1 that shows the rise in the level of production as well as consumption, of milk and of beef with bone in 1975-1980.

Table 1. Development of Meat and Milk Consumption in the CSR in 1975-1980

<u>Indicator</u>	<u>1975</u>	<u>1980</u>
Purchasing of slaughter cattle (1000 t)	453.1	484.8
Average slaughter weight (kg)	502	476
Average annual milk yield (liters)	2846	3119
Per capita consumption of meat with bone (kg)	24.49	25.12
Per capita consumption of milk (liters)	222.4	247.6
Total cattle population (1000 head)	3205.2	3498.8
Of which cows (1000 head)	1323	1317.1

During the past decade, at more or less the same number of cows, milk production increased, the average annual milk yield increased significantly, and the production of beef cattle increased sharply, primarily as a result of the more intensive reproductive use of the breed herd. But because the average slaughter weight and the average weight gain in feeding simultaneously declined, the number of younger cattle and their proportion within the total turnover of the herd increased. The per capita consumption of milk and meat rose. As we very well know, in meat consumption the CSR ranks among the foremost countries in Europe, and in beef consumption it is at

the very peak. The outlined development means an increase in the output of milk and slaughter cattle per cow of the basic herd and per hectare of farmland. These are decisive indicators of the intensity of development in this branch of livestock production.

When deciding the strategy of the plans for the development of cattle production under the 7th Five-Year Plan and thereafter (with an outlook to the year 2000), it is necessary to take into consideration an entire complex of questions of a technical, organizational, biological and economic nature that completely interact. Their successful estimation for the given time frame of reference and their gradual solution will determine the desirable direction of production and labor productivity not only within the system of cattle production but, in view of cattle production's ability to react on soil fertility, also in direct context with the soil and entire agriculture.

In principle, then, we are seeking on the one hand a credible and possibly reliable estimate of the long-range production conditions that are specified by the production possibilities, and also by the technology, manpower, organization and management, or in other words by the economics of the branch of cattle production. On the other hand we are seeking a possibly accurate estimate of milk and meat consumption. These considerations are the basis of the overall requirements on production, and from them we can then derive the breeding objective of the entire cattle stock, and develop suitable breeding procedures, with sufficient lead time for the age composition of the cattle stock.

From the viewpoint of the external conditions--determined in particular by the political and economic systems, the energy situation, the limited grain resources, population growth, not readily available foreign exchange, etc.--it is and will be increasingly desirable to intensify our own agricultural system, and hence also cattle production that unalterably remains a key area of livestock production. In this context the ability of ruminants, and of cattle in particular, to utilize roughages and to convert vegetable protein into animal protein is shifting to the forefront of attention.

This entire general overview of the problems in developing cattle production is unambiguously underscored also by the objectives and intentions of the party's agricultural policy, approved by the 15th and reaffirmed by the 16th CPCZ Congresses.

#### Comparison of Development With Europe

As already mentioned, the production and consumption of livestock products, hence also of milk and meat, are developing very differently in the individual countries, depending on an entire series of factors. For illustration and an overall assessment of the trends in the development of cattle production, we have selected information from the data presented at last year's Zagreb session of the European Association of Livestock Production (Bakker, Allen, 1981), as a part of the results of the appropriate work group (see Tables 2 and 3). In this study the countries of Europe (without the Soviet Union; in view of its size and the diversity of its internal conditions, the Soviet Union cannot be compared as a single entity) were divided into ecological zones that roughly correspond to the following groups of countries:

1. Denmark, Finland, Iceland, Norway and Sweden;
2. Belgium, Luxembourg, France, Federal Republic of Germany, Ireland, the Netherlands and United Kingdom;
3. Austria and Switzerland;
4. Greece, Italy, Portugal, Spain, Turkey and Yugoslavia;
5. Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland and Romania.

Table 2. Milk Production in the Countries of Europe

(1) Skupina zemí		(2) Skutečnost			(3) Prognóza		(4) Soběstačnost %	
		1960*	1970*	1978	1985	2000	1978	2000
(5) Mléko spotřeba [tis. t 4 %]	1	11050	10185	10220	9940	9645	136	128
	2	73845	81935	79145	79140	79270	115	111
	3	5670	6330	6455	6390	6175	103	100
	4	23145	26545	35110	43930	60460	84	82
	5	29485	35080	40520	43500	47450	103	103
(6) Ø roční dojivost [kg]	1	3225	3945	4750	5342	6386		
	2	2873	3378	3821	4072	4763		
	3	2845	3297	3644	3935	4386		
	4	1551	1585	1723	1931	2402		
	5	1984	2443	2952	3259	3760		
(7) Počet krav [tis. ks]	1	4473	3276	2917	2390	1930		
	2	22440	23104	23492	21595	18170		
	3	2066	1968	1885	1670	1410		
	4	11761	12919	14630	16215	18640		
	5	13709	13697	13934	13485	12780		

\*Three-year average.

Key to Table 2:

- |                              |  |
|------------------------------|--|
| 1. Country group             | 5. Milk consumption (1000 tons of whole milk containing 4 percent butterfat) |
| 2. Report                    | 6. Annual average milk yield, kg   |
| 3. Forecast                  | 7. Number of cows, 1000 head   |
| 4. Self-sufficiency, percent |  |

Even though the data in Tables 2 and 3 do not permit a more detailed evaluation of the development of cattle production in individual countries within the zones (nor is it known by what methods and from what input data the forecasts for the individual zones were prepared), the information is unquestionably interesting regarding both the actual development through 1980 and the forecasts for the year 2000, especially if we compare the CEMA countries (zone 5) with the other groups.

It is estimated that annual milk consumption in zones 1, 2 and 3 is declining, but meat consumption will rise, with self-sufficiency in both. In the countries in groups 4 and 5 there will be a gradual rise in milk consumption as well as meat consumption, but in the countries of group 4 there will remain also in the long run a gap between production and consumption, while in group 5 (CEMA countries) consumption is expected to rise parallel with increasing production and full self-sufficiency.

Table 3. Beef and Veal Production in the Countries of Europe

(1) Skupina zemí		(2) Skutečnost			(3) Prognóza	
		1960	1970	1978	1985	2000
(4) Výroba [tis. t]	1	491	550	571	580	585
	2	3665	4679	5316	5650	6375
	3	246	326	359	395	450
	4	1077	1745	1981	2475	3570
	5	1111	1740	2138	2450	3020
(5) Spotřeba [tis. t]	1	347	403	438	445	480
	2	4077	4899	4962	5345	6060
	3	246	335	353	385	440
	4	1215	2356	2665	3135	4330
	5	1139	1603	1984	2240	2790
(6) Soběstačnost [%]	1	141	136	130	130	122
	2	90	96	107	106	105
	3	100	97	102	103	102
	4	89	74	74	79	82
	5	98	109	108	109	108

## Key:

- |                  |                              |
|------------------|------------------------------|
| 1. Country group | 4. Production, 1000 tons     |
| 2. Report        | 5. Consumption, 1000 tons    |
| 3. Forecast      | 6. Self-sufficiency, percent |

In the countries of Western Europe, the process of a reduction in the number of cows and of a parallel rise in the average milk yield will continue. So far as meat production is concerned, the production of veal in these countries is expected to decline, and that of beef to increase, by feeding most calves to heavier slaughter weights, which is the trend begun in our country already in the 1970's. The authors of the study do not believe that this system will spread significantly in countries where there are meager traditions for raising fat breeds of cattle; in their opinion, technological procedures and the practical application of scientific results will unquestionably be used (better management of pastures and meadows, utilization of secondary sources of feed and fodder, growth inhibitors, embryo transplants, etc.). So far as the type of cattle is concerned, most European countries will give preference to high average milk yields but will still keep dual-purpose cattle, using Holstein bulls fairly extensively to upgrade the population of red-spotted and black-spotted cattle.

This briefly outlined general estimate of the development of cattle production in corresponding zones during the forecast period has much in common with the expected development of cattle production in the CSR.

Our own conceptual plans must likewise carefully evaluate the development to date (a brief characteristic of which can be found in Table 1), and at the same time carefully weigh the possibilities of ensuring the environmental conditions for cattle production, including feed. Under our conditions of the planned management of socialist agriculture, furthermore, decisive in setting the long-range objectives for the entire cattle population is also the warranted development of consumption: we anticipate a moderate rise in milk consumption, and growing demand for the production and consumption of meat.

## Optimization Demands a Comprehensive Approach

Thus it is evident that solution of the development of cattle production can be approached only with an effort to optimize entire livestock production, taking into consideration the existing sources of feed and fodder, particularly of feed grain, and the feedback of the cattle to the soil that is expressed most often in the requirements regarding the density of cattle per unit of acreage.

Concerning the question of the redistribution of feed grain, it is necessary to weigh also the aspects of feed utilization, of the conversion of the feed into the final product. Let us recall that roughly 9 kilograms of feed grain is consumed to produce 1 kg of milk proteins, but as much as 23 kilograms of feed grain is consumed to produce 1 kilogram of meat protein! In an economic evaluation of feed consumption to produce 1 kilogram of beef, pork and poultry meat, we must bear in mind that beef is a coproduct of milk production, whereas pork and poultry meat are sole final products!

Another important consideration is the ability of polygastric animals to digest bulk fodder; from this point of view, cattle are able to produce the most animal protein, in terms of milk and meat jointly, from the feed grown per unit of acreage. So far as meat production alone is concerned, feed grain is best utilized by broilers, then by hogs, and least efficiently by feeder cattle. If the entire complex of productive factors is considered from the viewpoint of ensuring self-sufficiency in grain production, then in the mutual evaluation of cattle, hogs and poultry for meat production we must devote special attention to cattle, in agreement with the latest party resolutions.

A further important consideration is the cattle density per unit of acreage. Academician Karel Kudrna is frequently quoted in this context. He estimates that a minimum cattle density of about 80 head per 100 hectares of farmland is necessary in the CSSR to ensure the lower limit of the agricultural system's stability. This density is already being achieved on average in the CSR, with the exception of North Bohemia and West Bohemia Krajs. In East Bohemia Kraj this density is even exceeded by more than 10 percent. Thus we should strive to gradually eliminate the differences between krajs, and within krajs between their okreses, and particularly within the okreses between their agricultural enterprises, but at only a gradual moderate rise in the total cattle population in the entire CSR, in accordance with the intensification of the feed base, primarily in terms of bulk fodder. At a desirable increase in the growth intensity of young cattle, primarily the cow population should increase, and thus the total cattle population's structure should change in favor of the proportion of cows. The low increases in the number of heifers, together with the early mating of underweight heifers, have resulted in a deterioration of the dairy herd, evident in the high culling rate of older cows and in their declining average slaughter weight. This situation often did not leave sufficient room for the advantageous and effective selection of first calves, despite the intensive use of heifers for reproduction.

It is an entirely different question that in the past the importance was underestimated of organic manures from the viewpoint of maintaining and improving soil fertility, and the supply of manure was utilized entirely inadequately. Under these conditions, even when the lower limit of cattle density was achieved in the CSR, the feedback to the soil has been below the desired level. A radical change in this respect is one of the decisive factors for the further development of the entire agricultural system.



Similarly the low growth intensity of feeder bulls had an unfavorable effect by extending the period of feeding and reducing the slaughter weight. Parallel with the extension of the period of raising and feeding, the number of cattle in these categories gradually increased as a result of the growing intensity of reproduction that was caused, at the same number of cows, by the intensive mating of heifers (as much as 37.5 percent per 100 cows on average for the entire CSR).

Because the feed base did not grow with commensurate intensity--and spectacularly favorable changes cannot be expected from one year to the next--for the immediate future it seems desirable to halt the growth to date of the cattle population and to keep it approximately at the present level. At the same time our main effort must be directed toward gradual intensification, of milk production by increasing the average milk yield per cow, and also of beef production by improving the weight gain of young cattle and by gradually raising the slaughter weight. Depending on the possibilities of sheltering and feeding, for the Seventh Five-Year Plan it may be assumed that the present total cattle population can be stabilized at a level of about 3.5 million head, including 1.30 to 1.31 million cows, at a less intensive use of heifers for reproduction.

If we summarize all the listed aspects, it follows from them that it is decisive to adopt basic measures for ensuring an adequate feed base. At the same time the main emphasis must be placed not only on producing sufficient bulk fodder, but also on technological discipline in its harvesting and storage, and on reducing feed losses, particularly losses in quality. Therefore the production of forage in sufficient quantity and of good quality is our task for the present and the future, and it can be regarded as the decisive factor for the intensification of cattle production. In this context our objective should be not only to ensure an adequate assortment of varieties of efficient forage crops and to observe the basic agrotechnical principles in growing them, but also to channel investment to the construction of suitable preservation and storage facilities, and to ensure a line of suitable harvesting machinery. In conjunction with this, special attention should be devoted to haymaking and to the harvesting of fodder beets.

The required intensification of crop production and an adequate supply of feed and fodder will contribute toward upgrading the future dairy herd. Especially desirable is a gradual reduction of the proportion of culled older cows, by extending their useful life and increasing their weight, and thereby improving the overall economic effectiveness. As optimal we can regard raising heifers so that at the age of 17 to 18 months, when they are first serviced, their weight is between 360 and 380 kilograms; on the other hand, more heifers should be culled already during raising if they are slow in gaining weight. These measures could contribute toward expedient regulation of the number of serviced heifers in comparison with the present situation and particularly to the situation in years past, and toward a reduction of the total number of heifers.

In the same manner the overall economics of cattle feeding could improve through the timely culling of more steers, preferably at the very beginning, if they are slow in gaining weight.

Capital construction will be linked essentially to the present development, with more emphasis on complementing existing facilities, and on their reconstruction and modernization. It also appears that systems of stanchioned keep are beginning to find wider

application, especially for dairy cows, with their commensurate concentration in accordance with the regional conditions, the specific sites of capital construction, etc. Generally speaking, the buildings and technological solutions that should find long-term application are the ones that take adequately into account the biological requirements and characteristics of the individual categories of cattle, will not be energy-intensive and will permit efficient feeding and thereby also efficient utilization of feed grain. In the foreseeable future, around the year 2000 or later, it may be assumed that all dairy cows will be housed in mechanized dairy barns, with machine milking in milking parlors or in the stalls.

The high capital intensity of building barns for cows (especially large-capacity barns) will lead to an economically substantiated effort to increase the average milk yield per cow, objectively based on a high conversion rate of feed into milk protein. At the same time it is necessary to take into account the possibilities of cattle feeding; i.e., of improving the quality of feed and fodder supply on the one hand (in general as well as under the specific conditions of the individual agricultural enterprises); and on the other hand, the anticipated total consumption and production of milk. Under our conditions, then, the objective will not be to attain an extremely high average milk yield, merely an optimally high average milk yield per cow.

#### Entire Cattle Population Must Be Upgraded

From the outlined considerations that jointly determine the future direction in the development of cattle production there also follow requirements for the entire breeding process and for setting a breeding objective for the cattle population. At the level of the entire cattle population, then, we should be breeding dual-purpose cattle as up to now, for both milk and beef, only with a moderately higher milk yield, and possibly with the ability to attain higher slaughter weights at efficient utilization of bulk fodder.

The comprehensive selection program that is already in place and is fully implemented will certainly remain the basis for upgrading the entire cattle population also in the future. The main element of this program is the highly effective offspring testing of bulls for both production characteristics (i.e., for the set of characteristics for milk production, and the set for beef production), as well as for the indicators of reproduction (including ease of calving) and health, on the basis of the adopted and approved methods.

Although the selection program has already been fully implemented in practice, there still remain further possibilities of a technical and organizational nature that can contribute to the gradual perfection of this program. A set of measures will be necessary to increase the number of offspring included in the tests, by organizing their servicing for testing and by complementing the testing facilities (stations for testing slaughter weight and carcass quality), and extending to the storage of more sperm and to increasing the capacity of the central sperm bank. Furthermore, there are possibilities for perfecting and refining the estimation of the breeding qualities of the tested sires, by selecting and using more effective methods of mathematical statistics and by an expedient and economically substantiated combination of the main selection criteria into aggregate selection indices.

In the category of brood cows it is likewise possible to gradually further improve the existing and functioning selection of first calves. This will involve the activity and expansion of breed herds, the construction and operation of stations for

testing the mothers of potential sires, further improvement of the preselection and selection of the mothers of potential sires for mating them with the best breeder bulls, etc.

All these elements should be directed toward the long-range conditions of cattle production and to the set long-range breeding objective. The dynamic development of the entire cattle population, generation after generation, will thereby pursue and implement the objectively set general objectives, which therefore must be weighed and determined very carefully, taking into account not only the biological but also and primarily the economic interrelations within the branch of cattle production and the entire agricultural system. These broader aspects can simultaneously help to properly orient and regulate the importation of strains from the world's top cattle populations that serve the desired breeding purpose and can be used to upgrade our cattle population through the comprehensive breeding and selection program that is in place.

As a supplementary system of cattle production we can consider the specialized keep of cows without marketable milk production. For this purpose it will be possible to use the culled cows, especially the rejects in the selection of first calves of the spotted breeds in particular, and of the Hereford breed under rugged conditions of keep. But here again the application of this supplementary system cannot be considered without solving its economic impact on the enterprise sphere and on society as a whole, because here the only final product is beef, and its production is economically less efficient.

So far as the practical application of qualitatively entirely new scientific knowledge is concerned, we cannot expect significant contributions in the immediate future, even though much hopeful attention is being devoted at present particularly to the practical feasibility of employing embryo transplants, possibly combined with sexing. If this proves successful in practice, it will have an impact on the entire strategy of cattle production, increasing the number of calves from the same population of brood cows or obtaining the same number of calves from fewer brood cows, or developing herds of the same genotype and ranging as far as cloning. Although very bold forecasts have been made in this respect, the overall strategy of cattle production does not take these new methods into consideration, neither abroad nor at home. The other possibilities may be considered approximately, in the sense outlined above, in conjunction with the European forecast of the development of cattle production.

Besides the already mentioned development of the breeding organization's activity, it will be necessary to expediently adapt to the entire strategic plan for cattle production also the activity of the veterinary organization, by shifting it predominantly to the area of comprehensive prevention, which includes the principal factors of animal health and aims to optimize the living environment and feeding of cattle, to reduce reproduction disturbances, and hence to actively control and protect the health of the cattle.

In conclusion we wish to emphasize once again that the proper orientation can be set only by comprehensively solving all the elements of the entire strategy for the development of cattle production, by analyzing them in detail and then synthesizing them. The questions involved are of a technical, as well as of a biological, organizational and economic nature. Some of the outlined considerations can be applied

directly, while others must be subjected to intensive study, until their final economic solution.

The principal factor in the overall strategy and tactics of developing cattle production is and will remain the supply of feed and fodder of good quality. This key problem in developing cattle production demands preferential and constant attention.

1014

CSO: 2400/289

## CZECHOSLOVAKIA

### BRIEFS

FOOD IMPORTS--The imports of the CSSR agricultural food sector constitute at present more than 10 percent of the country's total imports. [Prague ZEMEDEL'SKE NOVINY in Czech 12 Jun 82 p 1 AU]

KAPEK ATTENDS SEMINAR--The second Czechoslovak-Soviet seminar on "very hard synthetic materials" opened in Prague on 15 June, in the presence of Antonin Kapek, member of the CPCZ Central Committee Presidium and leading secretary of the Prague CPCZ city committee. The main objective of the seminar is to make use of Soviet experiences in this sphere and to expand cooperation with Soviet organizations engaged in the research, development and production of such materials. [Prague RUDE PRAVO in Czech 16 Jun 82 p 2 AU]

INTERNATIONAL IRRIGATION CONFERENCE--The first international conference on new trends in irrigation technology opened in Bratislava on 15 June. It is being attended by more than 200 experts from the CSSR, Bulgaria, Hungary, the GDR and Yugoslavia. [Prague RUDE PRAVO in Czech 16 Jun 82 p 2 AU]

LIGHT TRUCK EXPORTS--This year the Avia Letnany National Enterprise plans to export more than 60 percent of the light trucks it produces. A total of 3,500 of these vehicles should be exported to socialist and 4,200 to nonsocialist countries. The largest importers of Avia trucks are the USSR, Hungary and Poland. The trucks are also being exported to North Korea, Cuba, Algeria, Egypt and Morocco. [Prague LIDOVA DEMOKRACIE in Czech 8 Jun 82 p 6 AU]

CEMA FOOD INDUSTRY COOPERATION--The Council for International Economic and Scientific-Technical Cooperation held a meeting in Prague on 11 June. The council meeting, presided over by CSSR Deputy Premier R. Rohlicek, discussed --among other things--topics concerning the expansion of the CEMA member states' cooperation in the food industry, and dealt with a "draft measure influencing the conditions of direct contractual relations" among the CEMA's economic organizations. [Prague RUDE PRAVO in Czech 12 Jun 82 p 2 AU]

CONTRACT WITH USSR--In Moscow, representatives of the Soviet Mashinimport and the Czechoslovak Srojexport foreign trade enterprise have signed one of the largest contracts for the delivery of Skoda electric locomotives. On the basis of the contract, next year the Skoda Plzen concern will produce for Soviet railroads 80 express electric locomotives and spare parts worth Kcs865 million--60 5,100-kw locomotives of the CS4T type and 20 6,160-kw locomotives of the CS7 type. [Prague RUDE PRAVO in Czech 9 Jun 82 p 2 AU]

WORK DISABILITY IN 1981--In 1981 an average of 289,346 employees a day were absent from their places of work owing to illness or accident. The average work disability rate was thus 4.14 percent, compared with 4.34 percent in 1980. In the Czech Socialist Republic the work disability rate was 0.51 percent higher than in Slovakia. [Prague RUDE PRAVO in Czech 9 Jun 82 p 5 AU]

FODDER HARVEST--In the Czech lands by 14 June, perennial fodder crops were harvested from 60 percent of arable land and from 55 percent of pastures and meadows. [Prague ZEMEDELSKE NOVINY in Czech 16 Jun 82 p 1 AU]

WORK DISABILITY--At a press conference held in Bratislava on 15 June, Slovak First Deputy Minister of Health I. Hatiar provided information about the developments in the sphere of work disability due to illness or accidents and in the sphere of occupational diseases. Hatiar stated that in Slovakia in 1981, on the average more than 95,000 employees were missing daily from their workplaces. Due to accidents occurring outside work hours alone, "which have an increasing tendency," 10,400 persons were missing from their places of employment daily. Also, the number of fatal work accidents increased last year--mostly in the construction sector--Hatiar said, adding that in the first quarter of 1982 a total of 50 persons were killed on the job. [Bratislava PRAVDA in Slovak 16 Jun 82 p 2 AU]

CONSULTATION ON ENERGY--A statewide consultation of ranking personnel of the CSSR fuel and energy sector, held in Prague on 15 June, was devoted to problems connected with fulfilling the 1982 plan, to issues of the 1983 execution plan and to ensuring the tasks of the Seventh Five-Year Plan. The conference was attended, among others, by CPCZ Central Committee Secretary Josef Haman and CSSR Minister of fuel and power Vlatimil Ehrenberger. Representatives of the CSSR Federal Assembly, the CSSR Government Presidium office, State Planning Commission, CSSR State Bank and other central agencies were also present. Haman noted the key importance of the smooth supply of the national economy with fuels and energy, and called on the attending ranking personnel and functionaries of coal basins to exert maximum efforts to fulfill this year's coal extraction tasks. [Prague RUDE PRAVO in Czech 16 Jun 82 p 3 AU]

COOPERATION WITH USSR--Business talks between the director general of Soviet Production Associations of Electrical Engineering, led by Y. Khomenko, representative of the USSR Communications Equipment Ministry, and J. Stanek, director general of the Tesla Economic Production Unit of Consumer Electronics, began on 16 June in Bratislava. The talks aim at achieving specific agreements for expanding cooperation and the range of consumer electronic products on the CSSR market, and at speeding up the production of certain promising products in this field. The delegation was also received by J. Lenart, CPCZ Central Committee Presidium member and first secretary of the Slovak Communist Party Central Committee, who acquainted it with the tasks set by the CPCZ Congress and underscored the role of consumer electronics." [Bratislava PRAVDA in Slovak 17 Jun 82 p 2 AU]

MILK PROCUREMENT FIGURES--By the end of this May, Slovak farms sold the state over 14 million liters of milk less than planned. The cause was a lack of good quality fodder which would not endanger the cattle's health. The worsened quality of bulk fodder is due to the lack of discipline in adhering to correct technological principles. [Bratislava PRAVDA in Slovak 17 Jun 82 p 1 AU]

ADVANCE OF COMMUNICATIONS--According to V. Chalupa, CSSR minister of communications, the communications sector in the CSSR now has about 113,000 employees. In the last 10 years the number of telephone licences increased 53 percent; the number of those waiting for a telephone dropped in the last 10 years from 600,000 to 196,000. About 2,920 letters and postcards, and 7,400 packages were lost in the mail last year. By the end of 1983, the post will be transmitting the pages of PRAVDA from Bratislava to Zilina and Kosice, in the way it is now transmitting pages of RUDE PRAVO from Prague to Brno and Ostrava. [Bratislava PRAVDA in Slovak 17 Jun 82 p 2 AU]

CSO: 2400/303



# PROBLEMS OF TSZ WORKING CAPITAL MANAGEMENT VIEWED

Budapest FIGYELO in Hungarian 2 Jun 82 p 13

[Article by Dr Gabor Foti: "With the Same Measure"]

[Text] The control offices of regional tsz [producer cooperative] associations examined the 1981 inventory management of 66 agricultural producer cooperatives. The examination sought an answer for what reserves are there in material supply and in financing the expenditures, or what kind of measures by the cooperatives and by the state are necessary to improve working capital management.

The production of the producer cooperatives calculated at current prices increased by an average of 12 percent per year during the span of the Fifth Five-Year Plan, by a total of 63 billion forints. However, the end-of-year growth rate of production and sales inventories fell significantly short of production's growth during the first 4 years of the plan period. Simultaneously, the sum of short-range production loans used increased gradually. Banking costs increased by an average of 12 percent per year.

In 4 years the end-of-year levels of loans supplementing the revolving funds and loans advanced to the revolving funds increased by about 140 percent. As a result of changes in the regulations enacted at the end of the plan period, the revolving fund inventory increased by 21.6 percent between 1979 and 1980.

## Uncertain Planning

In their annual plans the cooperatives include their need for revolving assets for production during the year. But while the needs for means for basic activities in each branch can be calculated approximately accurately, the needs for means for supplementary activities can be calculated only approximately. To a decisive extent the inaccuracies of planning result from the continual price changes of equipment purchased, mainly of free-prices items, not yet known at the time of planning. As a consequence of all these things, the producer cooperatives plan their money coverage needed for continuous production with a certain safety factor. And they also include in this the reserves necessary for the "loan negotiation" conducted with the bank.



In planning the value of the funds for the time of the so-called bank measurement includes many factors of uncertainty (for example, the weather, price fluctuations, etc.). As a consequence of all this, the "narrower overhead costs" move within rather broad limits, which causes problems in planning the value increases of the inventories and in obtaining loans for this.

The situation is only complicated further by the fact that even though, for biological reasons, the inventories are needed at strictly specified times, quantities and qualities, the rates of deliveries are determined by the storage and transportation facilities of the manufacturing and sales organs. For example, the chemical fertilizers and plant protection chemicals ordered by a schedule and the order is so accepted, but the deliveries arrive several months ahead of schedule, or quite the opposite happens: they are delayed. It also occurs that the quantities ordered are unilaterally decreased by the sellers.

The several months of storage accepted in the interest of more reliable supply causes an unnecessary tying up of finances, the lack of adequate storage space, significant losses, and the lack of planning in deliveries, as well as the use of certain transportation organization solutions (for example, transportation on holidays) causes labor organization problems for the producer cooperatives.

The packaging material and spare parts supply problems also lead to forced hoarding and the development of idle inventories. The situation is made more difficult by, for example, the fact that following price changes of spare parts—according to the 1979 and 1980 spare parts purchase bills of the cooperatives examined, the prices of 32 different types of spare parts went up by an average of 40 percent—, there is no procedure for reevaluating the inventories because of the price changes. And price changes of such size cause financial problems for the producer cooperatives. But if there were a possibility for reevaluation, the difference from reevaluation could be credited between the inventory account and the revolving fund account without tax payment obligations.

There is an effect of interaction between the revolving fund supply of the producer cooperatives and their production levels and the profitability of their economic operation. In the cooperatives with the best revolving fund supplies the production value per hectare of production area (53,800 forints) is more than triple of those with poor supplies (17,500 forints). The difference is more than 23-fold (0.5 and 11.7 percent) in profit levels in relationship to the production values.

There is quite a broad difference in the growth rates of durable inventories and revolving funds. While in the TSZs with poor financial supplies from one year to the next the 26 percent increase in durable inventory value was followed by a 7 percent lower, or 19 percent increase of the revolving funds, in the units operating on a higher level, without credit, the 33.7 percent growth rate of the value of durable inventories was accompanied by a 3.7 percent higher, or 37.4 percent increase in the revolving funds.

In the producer cooperatives with poor financial supplies the inventory value calculated at diminished costs is higher than the realization prices. Thus, these farms are producing at a greater cost than for what they can sell the merchandise. This indicates that the durable means of this circle of cooperatives contain activated losses. Thus, here the credit extended for increasing the value of the inventories does not represent increased means for expanding production, but increasingly it is credit for unrealizable value increases, or losses.

Financial supply for the production activity is based on the annual loan contract. But the farms do not use the so-called revolving credit much. Therefore even with the large sums of money for bills they often use supplementary working capital loans at high interest rates.

The interest burdens on cooperatives are often increased by the fact that most customer enterprises fulfill their payment obligations only after the longest possible carrying time. In contrast with this, too many organizations are implementing demands immediately on billing, as authorized by statute or on the basis of agreement by the cooperative.

The working capital needs of the cooperatives is also increased unjustifiably by the fact that in investments they build themselves, the otherwise existing financial means of the investment can be used only after the performance values have been billed. Thus, in order to implement these investments, on the one hand they need duplicate resources, and on the other hand the interest costs increase because of the unnecessary loans. In addition to this, the sum on the account and intended for the investment draws no interest.

It Would Be Good, If

There are several possibilities to increase the supply of working capital, to improve inventory and money management in the cooperatives examined. For example, in some of the cooperatives the financial means assigned for development purposes—after coordinating this with the bank's organs—could be involved in financing the working capital. Improving the personnel and material conditions of inventory management, better organization of the delivery and receiving of the quantity and quality of the supplies, and better planning of the purchases and sales would also improve the inventory management of the cooperatives.

The interest burdens could also be decreased by the use of revolving credit, by shortening the time of validity during which demands can be made, by taking a more consistent stand against late payers, by expanding the opportunities for taking out less costly loans (KTA: Mutual Assistance Fund, loans to members), by the timely fulfillment of repayment obligations, or by using a larger ratio of the development funds for increasing the working capital.

Besides all these things, central measures would also be needed. For example, it would be practical to build into the planning system a planning opportunity also for minimizing inventory at some other point in time than 31 December.

In the interest of decreasing idle inventories, among other things, the collection and removal of plant protecting chemicals which have become unneeded, and are still in intact packages, should be organized.

The storage costs and storage losses of producer cooperatives, related to deliveries ahead of schedule, should be compensated in some manner, for example, in the form of price discounts. It would be justified to simplify the inventory revaluation system, and to expand the revaluation opportunities for the present, larger circle of industrial products (based on average indices). In placing values on home-produced inventories such an upper limit should be developed which would screen out the unrealizable costs, the activation opportunity of the losses.

In the circle of low profitability cooperatives the stockpiling of revolving assets (inventories and cash) is a basic condition for expanding production and improving profitability. In this circle, therefore, it would be justified to examine the possibility of expanding resources (perhaps credit construction) at the expense of the untaxed profits. It could be considered that for self-executed investments the purchase of materials for the investment, and financing the wages for labor should not involve unjustified loans and interest burdens.

Naturally, these are only partial solutions! The basic one would be if the regulatory system developed an operational approach and behavior in which the producer cooperatives would consider justified expansion of the working capital to be the same kind of development as an investment.

8584

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RESTRUCTURING OF ECONOMY REQUIRES LONG RANGE PLANNING

Warsaw ZYCIE GOSPODARCZE in Polish No 21, 13 Jun 82

[Article by Danuta Hubner and Wojciech Hubner: "Changes in the Structure and Ties With the Surrounding Milieu"]

[Text] The call to rebuild economic structures appears in many statements regarding our country's current situation. Although it is understandable that today attention is focused on current actions, those of a stabilizing nature, nonetheless, the basic hindrances standing in the way of a sounder economy and its further development are structural in nature.

There are unsurmountable barriers to extensive expansion in the Polish economy. The low labor productivity and low effectiveness of the other production factors keep management costs high. Cheap resources of the labor force, energy, and raw materials are basically exhausted. Under the conditions where there are supply barriers, consumption cannot be a driving force of development either. As a result, within the framework of existing structures and given their effectiveness, the fixed (structural) feature of the economy is the growth of imports at a rate more rapid than that of exports, but the overall lack of internal equilibrium is accompanied by a growing deficit in foreign trade.

We should also take as unreal at the same time the often silently accepted assumption that the very exhaustion of the extensive factors of development automatically means the economy is on the way to intensive development. In order for intensive development to actually be able to take place, the circumstances for its effective course must be present. It is only the structural reconstruction of the economy which can provide for these circumstances.

In this article we want to show the role which ties with the surrounding milieu should play in the process of restructuring the national economy.

Under the conditions of the existing dimensions of indebtedness, there is a revitalization of concepts of return to at least partial autarky and the expansion of antiimport production, concepts which are particularly dangerous in a situation where the national economy faces the need to begin a long-term process of structural reconstruction.

It can be accepted that short-term ad hoc economic undertakings can run completely autonomously in relation to the changes taking place in the surroundings, and even such tactics of operation can bring the economy short-term benefits, but the long-term strategy for development and hence the restructuring of the economy, however, must be based on full information concerning the directions of the surrounding development and must provide the national economy with beneficial participation in the international division of labor.

If we consider the transformation of the economic structure to be a goal of the projected actions, we must have available information concerning the conditions under which these transformations can produce the desired effect and concerning the means of action which are available. Within the framework of these decision-making components, we can single out the most vital restrictions which should be anticipated in the course of conducting the restructuring process.

Here we should list the internal restrictions and those rooted in the external environment of our economy. Most of the external restrictions which we should expect in the future have had an important impact on the development of our economy at least since the middle of the 1970's (strong inflationary trends, low developmental growth rate of the capitalist countries and relatively great instability in it, free development of international trade, worsening of commodity terms of trade, etc).

The limitations of an internal nature are related both to the real sphere of the management process and also in the regulatory stratum. In the production sphere we are dealing with substantial investment commitment and a production system inherited from the past, one with a historically shaped structure and technical-quality parameters. Today this system is greatly underutilized. The significance of this restriction is tremendous owing to the fact that the source of this underutilization of existing production capacity leading to a great rise in management costs is not a decline in demand but supply limitations, including above all the foreign trade barrier.

In a short period attempts to break or ignore the production, technical, and trade, foreign and domestic, ties will be a factor which will vastly increase the cost of getting out of the crisis.

The economic management system can also appear as a factor restricting the scope and effectiveness of structural policy, if the reform being inculcated does not create adequate incentives and stimuli for structuring proexport economic potential.

The clasp buckling the internal restrictions to the external ones is the balance of payments. This will be a key restriction for a long period of time, not only because of the previous indebtedness and the situation on the international credit market but also because of the structural lack of harmony between the growth rate of exports and that of imports. This restriction should be recognized as one which designates the nature and sphere of current stabilizing measures and the long-range directions of development. Given the limited internal capacity for financing investments, the situation with the balance of payments will hamper the structural maneuver and even limit its scope in many areas with regard to modernizing measures to update the ever-ageing production equipment.

In looking at time we should also consider it to be a factor which is limiting in the process of structural changes. Both the theory of economics and economic history provide proof of the occurrence of inversely proportional relations between the costs of the economy's structural reconstruction and the length of the period in which this process is carried out.

In formulating the concept of restructuring the economy, we can take a timeframe equidistant from the current point of observation (here we usually talk about the stages of actions undertaken) within the framework of which the set goals are successively realized. Then we are dealing with a chronological operating schedule of restructuring measures.

The interior logic of the notion of structural changes, on the other hand, calls for a restoration of the sequencing and a departure from the tasks which one wishes ultimately to carry out in the longest periods to those tasks which these aspirations imply for increasingly shorter periods of time.

Even an optimistic look at the structural changes ultimately designating our economy's new place in the international division of labor must lead us to the conclusion that noticeable effects of the actions undertaken (and these are very intensive ones) cannot appear until a rather substantial passage of time.

Therefore, it becomes essential to establish suitable criteria of selection and therefore the most rational viewpoint for an assessment of the various variants of the changes which can be evoked in the economic system.

If we recognize one of the major shortcomings of the current structure to be its features which ultimately predestine the economy not to be very open, to give it an undistinguished place in the international division of labor, and to be very weak in international competition, then we can designate as a criterion of selection the maximalization of the degree to which the variant being considered agrees with the demand for the economy to gain a respectable economic position in the framework of the economic surroundings.

Therefore, such a criterion would have to be related to the pursuit and selection of the optimal degree of openness for the economy. This would be the equivalent of determining the line between the national economy's interdependence with the milieu, on the other hand (which makes it possible to obtain benefits from exchange) and sovereignty and the gaining of benefits from the economic and political security of such a solution, on the other hand.

Each of the possible variants being analyzed as a possibility for making a change in the structure should be assessed from just this point of view, by designating special sorts of economic enclaves, in which one would purposely achieve complete or nearly complete independence (this can be done in gradations, narrowed to just the national economy or in a broader sense expanded to include the integrated socialist community) and strive to achieve maximum benefits (in absolute or relative categories) over a long period from economic relations with the external milieu.

At the same time it should be emphasized that the dimensions of the "sovereignty enclave" could not be extensive and would be greatly limited by the costs of maintaining them, which is the proverbial other side of the coin. They would represent some sort of departure from the rule, which would be the striving for a rational growth of ties with the milieu. In the modern sense of the process of restructuring, there is no way to overlook the supreme role of the conscious, economically justified process of opening up the economy.

The restructuring processes require drawing up a long-range structural policy. It is more necessary particularly because most of the current undertakings and economic decisions are also being modified, sometimes in a manner which is difficult to grasp from a close perspective, through the internal economic structure.

Conscious structural policy setting specific goals and identifying operating conditions and means, a policy under whose auspices a choice is made in keeping with a uniform criterion, must have at its disposal those mechanisms and instruments which permit a cohesive implementation of the concept being proposed.

Hopes for initiating the process of changes in the economic structure are linked to the mechanisms which ultimately the reform is to set in motion. It would seem that many of them can play an important role in this process and become a driving force in restructuring the economy, but to a great extent it will be the content which these mechanisms of economic policy supply which will determine whether the long-term structural goals will be met.

A great deal also depends on the way in which individual legal documents expand the ideas contained in the previously adopted basic reform documents and then on the sort of day-to-day pragmatics of implementation that results.

The impact of the economic reform mechanisms is being clearly weakened in the example of the current situation, for example, by the selective, limited application of merely excerpted solutions stemming from the basic concept of the reform.

As a result the process of inculcating the reform may both help us overcome structural barriers and be a source for the creation of new restrictions too.

10790

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EFFECTING ECONOMIC REFORM IN FOREIGN TRADE DISCUSSED

Managerial Principles

Warsaw HANDEL ZAGRANICZNY in Polish No 1-2, 1982 pp 15-17

[Article by Eugeniusz Harasim: "The Directions of Effecting Economic Reform"]

[Text] The economic reform which was put into effect at the beginning of 1982 introduces new principles of managing the entire economy, including foreign trade. The principles of managing this sphere of the economy may be specified, although not too precisely, in the following way:

1. foreign trade enterprises and production enterprises are achieving considerable independence in the area of export activity,
2. new principles of foreign exchange distribution and import functioning are in force,
3. new principles of clearing of accounts for supplies for export or from import have been introduced,
4. the functions of the central authorities in foreign trade management have undergone changes.

New decisions with regard to economic instruments, such as producer prices, foreign-exchange rates, taxes, etc., are closely tied in with all the mentioned directions of changes in managerial principles.

The principles of establishing prices and the price level itself have gone through the greatest transformations. New producer prices on basic raw materials and materials were set at world-market price levels calculated at the exchange rate of 50 zlotys per dollar. Thus, the said level of the rate of exchange has become the cause of serious problems in the formation of a rational system of clearing of accounts in foreign trade, which we will discuss in a moment. New producer prices have made it possible to implement, although not entirely, the pricing of raw materials and imported as well as exported materials and have introduced world-market price ratios into our economy. The foundation for the construction of the optimal structure of our foreign trade and for the improvement of the entire economy has been created since commodities which are expensive on world markets have also become expensive in our country, while inexpensive commodities have become inexpensive.

The decision regarding foreign currency exchange rates, which are currently in effect during the clearing of accounts on export supplies and on those which are imported, was undertaken under conditions of serious controversy. The exchange rate of the transferable ruble, which for many years has been set at a level of 44.44 zlotys, has been raised to 68 zlotys while the exchange rate on a dollar has increased from 54 zlotys to 80 zlotys. Such large increases--on the order of 50 percent--of foreign-exchange currency rates are extremely rare in the economic policy of all countries. Despite this, it will soon turn out that these increases are insufficient. What is the cause of such a great decline in the value of the zloty? The answer is simple: an increase in production costs and a drop in the work output of our entire economy. It is a known fact that for a long period of time now, production has been falling whereas wages are rising. That is why reform of producer prices could only have meant an increase in prices on raw materials and materials. This price escalation was remarkably well supplemented by several procurement price increases on agricultural products.

World markets do not react to the increase of our production costs. Foreign exchange prices are relatively stable and may increase within the limit of several percent annually. In the meantime, detailed calculations by several important producers of export commodities show that today production costs are already increasing, not the range of 50 percent, but over 100 percent. Thus, the shockingly high increase of prices in stores must be accompanied by an increase in the sale prices of commodities intended for export or, in other words, by a drop in the value of the zloty against foreign currencies. An alternative to this process would be to maintain the rate of exchange and to eliminate export.

The already executed reform of producer prices on raw materials and other materials, based on the exchange rate of 50 zlotys per dollar, constitutes an objective difficulty in the further increase of the exchange rate. A greater disparity between these rates is an indication of bonuses received on material intensive export production. The manufacturer pays 50 zlotys for raw material worth \$1.00 whereas in selling this raw materials for export, he currently already receives 80 zlotys. Thus, it is possible to make a great profit on the difference between exchange rates alone. Under conditions of enterprise independence, this is a real danger. We shall end this topic here with only one conclusion: the need for a new reform of producer prices is beginning to emerge.

The range of independence of foreign trade enterprises has increased in several spheres of activity. Planning should be mentioned first. The enterprises themselves have established the size of export and import already for the first quarter of 1982. The Ministry of Foreign Trade did not assign tasks to them but only relayed, as information, government assumptions for the first quarter of this year [1982]. The preliminary arrangement of the sum of enterprise plans reveals their great convergence with the central plan. This is illustrated by the data given below:

In billions of negotiable zlotys

	Export	Import
According to the central plan	182.7	193.5
According to enterprise plans	174.1	182.5

In this arrangement, a new element appears, which was brought on by economic reform; i.e., the elimination of the foreign-exchange zloty and the use of negotiable zlotys for the assessment of the extent of foreign trade turnover. Obviously, it will take a certain amount of time to get used to these new quantities.

Although, foreign trade enterprises are officially free to set up export tasks, they do not decide, however, about the size of this export. For the time being, the manufacturer has the deciding voice to a large extent and this also includes the independent manufacturer.

Unfortunately, it is difficult to talk about the independence of enterprises in the shaping of import. The distribution of foreign exchange for import is centralized and, contrary to outward appearances, this does not result from martial law but from a deep foreign-exchange deficit which is forecast for many years to come. It must be emphasized that from the very beginning of the work done on reform, the principles of import functioning were not formulated clearly. There appeared only enigmatic announcements about the possibility of freely purchasing foreign-exchange [currency] by enterprises. However, the authors of these announcements did not have the courage to specify at how high a level the exchange rate ought to be set so that the demand for foreign exchange would not exceed bank funds. Empty foreign exchange currency coffers, like empty coal storage yards, seriously disturbed the vision of reform or, in other words, the vision of enterprise independence. Under these conditions, the only possible method of executing a certain independence in the making of import decisions is foreign exchange allowances. The rules regulating the functioning of these allowances, which were put into effect and publicized by the press, do not require reporting here. Two issues are worth emphasizing. First of all, foreign exchange allowances will entail only about one-fifth of the entire pool of foreign exchange intended for import in 1982. The fundamental part of import, mainly raw materials and food, will continue to be implemented within the framework of the central appropriation of foreign exchange. Secondly, the principle which specifies that foreign exchange allowances are to serve only export production is being received with disappointment and disapproval.

A problem of a general nature should be stressed here, namely, the supply of production which is not included in operational programs. Undoubtedly, experience will also show that the idea of operational programs is only a superficial solution to the problem of the selective upkeep of production. The official registration of specific factories for operational programs inadequately specifies the distribution of raw materials and foreign exchange since today every product is made in numerous stages of production and by many subcontractors. It appears that the limiting of production, to

which priority was not assigned, must be implemented by means of methods which are more effective than the mechanism of the selective supplying of foreign exchange and domestic raw materials. Without this, the practical implementation of the principle that foreign exchange from allowances is intended only for export production will, undoubtedly, not be possible.

In principle, foreign exchange allowances are received only by manufacturers. Foreign trade enterprises do not, in practice, have any independence in the implementation of import. They implement import within the framework of orders [for goods] resulting from the allocation of foreign exchange: for central import (raw materials, food), for the implementation of operational programs, for nonproduction purposes as well as from orders placed by manufacturers who have foreign exchange at their disposal.

The possibility of manufacturers obtaining authorizations to carry on independently the export of their own goods as well as import for their own needs (naturally, within the framework of the above discussed mechanism of foreign exchange allocation) undoubtedly is one of the new elements in the functioning of foreign trade. The right to conduct foreign trade is conferred by the minister of foreign trade if the manufacturer fulfills specified conditions; i.e., if he has an adequately large export production and possesses cadre and technical conditions.

A second important right given to manufacturers is the possibility of choosing a foreign trade enterprise with a similar commodity specialization with which to enter into agreement for export or import. For this reason as well as in connection with a decline in turnover, foreign trade enterprises are increasingly more concerned with attracting domestic contractors.

Among two partners possessing equal rights, the manufacturer has a considerably stronger position than the foreign trade enterprise. The latter must compete with a bare domestic market, which can take in nearly everything without posing quality requirements on others. With new principles of economic functioning, foreign trade must have strong arguments at its disposal in order to receive goods for export. Does it, indeed, have such arguments? We have already discussed the most important one--foreign exchange allowances. The second one should come about from the system of the clearing of accounts.

The previously binding regulations imposed two kinds of stipulated relations: that a foreign trade enterprise would take export commodities either on consignment or on its own account. The specifics of these agreements were imposed in advance. Currently, enterprises decide independently about the contents of negotiated contracts; however, they must abide by the prices in effect or the principles upon which they are set. The general use of the consignment form becomes radically limited for two reasons. In the first place, official or regulated prices must be paid to the manufacturer also at the time of delivery for export. Transaction prices may appear only as a specific form of contracted prices. Secondly, the balance account of foreign trade has been placed in foreign trade enterprises.

Without discussing this particular subject in detail here, the main concept of the present solutions should be emphasized. Thus, what was of concern here was that the manufacturer receive from the exporter the same prices as he would for supplies intended for the domestic market. In addition, extra costs related to export must be honored in the form of surcharges on official prices or accounted for in the level of regulated or contracted prices. If foreign exchange prices guarantee high profits, then enterprises carry out an agreed upon distribution of these profits through the proper fixing of contracted prices. Essentially, therefore, what the new general principle comes down to is that foreign trade pays the manufacturers official prices or prices resulting from the costs of production. Foreign trade has taken upon itself the problems connected with the balance account. As we have mentioned, the calculations received until now of the production costs of larger export suppliers, point to the necessity of further increases of foreign currency exchange rates.

The level of foreign currency exchange rates plays an extremely important role in the field of imports. The purposeful mechanism of import control does not foresee the distribution of foreign exchange but its free purchase in banks. Of course, this will be possible after the introduction of an exchange rate of balance. It is worth referring to the theory of R. Nurksy, in accordance with which the balance rate of exchange is a rate which maintains the balance of payments in a state of equilibrium for a long period of time. We will certainly not introduce such a rate of exchange in the near future but it is indispensable that we gradually move closer to it. The alternative is clear: either a high rate of exchange or the administrative distribution of foreign exchange, ergo, the true independence of enterprises or central decisions. Let us only add to these statements that there is a rapid increase in the amount of information from industry about lowered prices on supply commodities from import as compared to new supply prices on domestic goods. This constitutes important evidence that the current foreign exchange rates are too low.

To a certain extent, the tariff collected from imported goods serves as a regulating instrument. Reform has not introduced any vital changes here. Naturally, tariff levels are increasing along with increases in foreign exchange rates.

In the legal acts issued to date, new principles of enterprise functioning have been formulated much more comprehensively than the new functions of the central authorities. Let us remember that the activity of enterprises is regulated mainly by the following legal acts:

- The law regarding state enterprises;
- the resolution of the Council of Ministers No 243 concerning the principles of operation of state enterprises in 1982;
- the resolution of the Council of Ministers No 278 concerning the functioning of the economy during the martial law period.

The rules contained in these legal acts refer in full to foreign trade enterprises. Specific solutions are found in executive decrees and ordinances pertaining to them.

Undoubtedly, the Sejm will shortly issue other laws which will regulate the particular fields of economic life and which will specify the new functions of the central authorities. Above all, this concerns planning, thus tasks of the Planning Commission, prices and therefore, the activity of the State Price Commission, the entire sphere of financial and bank problems including functions of the Ministry of Finance, the Main Office of NBP [Polish National Bank] and other banks. In the first package a law on the granting of authorization for the carrying on of foreign trade will also be approved. All the topics mentioned here deserve a separate discussion. Only certain problems should be stressed here.

Much of the work on the reform was taken up by the problem of regulating currency circulation in the country and the limiting of freedom in the negotiation of credits. It was recognized that in these fields, an important role must be played by the Sejm. A second institution which receives important authorizations in this area is the bank. Both the Main Office of NBP as well as banks which finance enterprises become the most important element which regulates the economic activity of independent enterprises. The functions and rank of the Ministry of Foreign Trade are also increasing to a great extent. This issues forth from both the general assumptions of economic reform as well as from the principles which pertain to a martial law period. New, expanded functions of the minister of foreign trade pertain, in particular, to the control of export and import. By way of example only, let us mention the granting of authorization for the carrying on of foreign trade, the establishing of foreign exchange allowance rates, the managing of a balance of accounts in foreign trade, possessing foreign exchange for the implementation of central import and the issuing of export and import licenses. It is not necessary to emphasize that traditional tasks connected with activity abroad are no less important and difficult than before. The current management of foreign trade by the minister of foreign trade takes place, of course, within the framework of government agreements and those of the Economic Committee of the Council of Ministers and with the close cooperation of the Planning Commission and the Ministry of Finance.

The organizational structure of the Ministry of Foreign Trade has not as yet succumbed to change, although currently a necessary adaptation to new functions is taking place. The tasks of legal services, of the Department of Organization and Administration and of units which are economic in nature are increasing markedly. The functions of commodity departments are undergoing significant changes. Among other things, they are taking over decision making tasks concerning the balance of accounts and the issuing of export and import licenses. The decision of the Economic Committee of the Council of Ministers in regard to entrusting the minister of foreign trade with the function of a founding organ in relation to all foreign trade enterprises, without exception for the period in which martial law is in force, also has a specific, practical significance.

Only a rough outline of the more important elements resulting from economic reform was possible in the present article. A comprehensive discussion of the particular topics will, undoubtedly, be the subject of a series of publications on the practical assumptions and the experiences of reform.

### Foreign Trade Monopoly

Warsaw HANDEL ZAGRANICZNY in Polish No 1-2, 1982 pp 17-20, 27

[Article by Jozef Wierzbowski: "Foreign Trade Monopoly Under Conditions of Economic Reform"]

[Text] Economic reform places such problems on the agenda as: the scope of using foreign trade monopoly in this entire sphere of economic activity; relations between the carrying out of foreign trade monopoly and proportions of the central plan, credit and foreign exchange policy of the state, investment processes, etc; the distribution of powers (and the resulting functions) among state administration organs in the implementation of foreign trade monopoly; the functioning of information systems (including computerized information systems), which assure the efficient implementation of foreign trade monopoly under conditions of a reorganized economy.

A solution to the enumerated problems appears to be indispensable for an outline of the institutional forms of implementing foreign trade monopoly under conditions of state enterprise operations in accordance with the "three s" formula.

These problems did not find--in my opinion--a proper reflection in the papers prepared by Team VIII for Economic Reform. It is difficult for example, to recognize the following statement as an adequate point of departure for institutional solutions: "The constitutional principle of state foreign trade monopoly constitutes the basis for institutional solutions in the management of foreign trade. It specifies the exclusivity of the state in the shaping of economic relations with foreign countries as well as in the management of the processes of cooperation and exchange. Specific rights and responsibilities of the supreme organs of state authority and administration, of banks as well as of enterprises and their associations arise from this principle. They pertain to the planning of economic development from the point of view of its optimum participation in the international division of labor; in the planning of the entire scope of exchange, of credit and foreign exchange policy, of instruments for the indirect control of exchange; the negotiating of international agreements and specifying the structure of the organization of foreign trade and its particular elements".<sup>1</sup>

No "specific rights and responsibilities" have as yet resulted, either for the state administration or for economic organizations, from the assertion of state exclusivity in the shaping of economic relations with foreign countries. Rights and responsibilities result only from established (and legally secured) mutual relations between the state administration and economic organizations. These relations, which constitute, among other



things the object of reform, currently find themselves in statu nascendi. What's more, it is in the definition of these rights and responsibilities connected with the principle of foreign trade monopoly that, in my opinion, lies the essence of economic reform in the sphere of foreign trade. All other solutions including also institutional solutions should constitute offshoots of this basic solution. They are, in my opinion, just as important as the designation of the position of the state enterprise and the role of the self-government of its workforce.

Until now, foreign trade monopoly was reduced, in practice, to the principle of the implementation of foreign trade turnover by specialized foreign trade enterprises, which are directly or in fact subordinate to the Ministry of Foreign Trade. The tying in of foreign trade turnover with the central plan assured (and continues to assure) the fulfillment by foreign trade enterprises of certain administrative functions in the name of the Ministry of Foreign Trade. Some general services of these enterprises (for example, planning or economic services) constituted, to a greater extent, the extension of appropriate organizational divisions of the Ministry rather than an integral part of these enterprises.

The following belonged (and still continue to belong) to the responsibilities of foreign trade enterprises: the responsibility of controlling the conformity of turnover implementation with the assumptions of the National Socio-Economic Plan [NPSG]; the responsibility of accounting for the execution of the plan by the suppliers and buyers cooperating with them [the foreign trade enterprises]; the obligation to respond to instructions of the Ministry of Foreign Trade regarding the halting of transactions in case the proper implementation of planned tasks should be threatened by particular suppliers and buyers and even the responsibility of issuing export and import licenses. In addition, if, for example, plan tasks had been reduced during the year and contracting had already been carried out at the level of preliminary plan tasks, then enterprises were obligated to renegotiate the transacted contracts in such a way as to adjust the level of contracting to the current plan proportions.

Examples of the activity of foreign trade enterprises as "guards" of foreign trade monopoly abound. They make it possible to highlight two common traits. First of all, with this type of activity, there is no room for an analysis of the effectiveness of trade operations from the enterprise point of view, not even to mention being steered by the criterion of profit.<sup>2</sup> Secondly, the fulfillment of these functions places the foreign trade enterprise in opposition to its suppliers and buyers, thus, making difficult the integration of activity within the sphere of production and within the sphere of foreign trade.

Such an approach to foreign trade monopoly is not peculiar only to Polish conditions. Its source may be found in the document of the socialist state, introducing for the first time the principle of foreign trade monopoly, i.e., in the decree of the Council of the People's Commissars of the RSFRR [expansion unknown] from 22 April 1918.<sup>3</sup> This approach was presented, in a much more precise manner than it would seem, in the resolution of the CK WKP (b) [Central Committee of the All-Union Communist Party (Bolsheviks)] Plenum of October 1925: "...the state itself implements the carrying on of foreign



trade by means of a specially created organ (The People's Foreign Trade Commissariat); it [state] decides which organizations, in which branches and to what extent they can conduct direct operations within the scope of foreign trade: it specifies, on the basis of tasks pertaining to the growth of socialist construction and holdings, by means of the export-import plan, what can be taken out of the country in what amount and what may be brought into it; it directly regulates import and export as well as operations of foreign trade organizations by means of the system of import licenses and quotas".<sup>4</sup>

Many Polish economists presented a similar approach, stressing issues concerning foreign trade turnover and the assurance of the continued functioning of monopoly through a specialized apparatus which is subordinate to the Ministry of Foreign Trade or which operates on the basis of concessions granted by it.<sup>5</sup> Such an approach, justified in the light of the conditions existing in the 1950's or even the 1960's, not to mention Soviet experiences from the inter-war period, gradually became inadequate especially in view of the progressive increase of economic ties between Poland and its external environment. These ties, which manifest themselves in, among other things, the entire scope of processes of cooperation and specialization with foreign countries, caused the problems connected with foreign trade to penetrate production, investment and even research-developmental processes more and more deeply. Because of this, there was an increasing need for the supreme state administration organs to make use of instruments of influence--by virtue of foreign trade monopoly--on the entire scope of processes of specialization and cooperation with foreign countries and also on investment processes which are connected to them, already at the stage of developmental decision making and not just at the stage of the distribution of production results. However, this condition was either underestimated or (which amounts to the same thing) inaptly accounted for in practical activity. It would probably be possible to show direct evidence that at the base of the slow changes of the structures of Polish foreign trade and the extremely high increase of the import intensiveness of production there was, among other things, the improper functioning of foreign trade monopoly, which encompassed within itself regulatory activities in the sphere of final production, without influencing decisional processes in the sphere of production and investments which forejudge the shape of foreign trade turnover.

Economic reform will, undoubtedly, intensify these conditions and will increase the necessity of acting upon the sphere of production and the directions of its development.

The elimination of the foreign exchange zloty and, above all, the new role of the foreign exchange rate as a price creating factor form a direct link between foreign trade and the results obtained by industrial enterprises, domestic trade and others. In connection with the "three S" principle and particularly the principle of self-financing by enterprises, this indicates that foreign trade is becoming a vital factor of the developmental strategy of these enterprises, a strategy which lies within the scope of their self-governments. In order to assure influence on the structure of foreign trade and the fulfillment of treaty terms, the supreme state administration organs

must have at their disposal--in the implementation of foreign trade monopoly--measures of indirect influence on the directions of undertaken developmental decisions and not only on directions of the sale and purchase of commodities and services by enterprises. A change in the nature of the central plan (including the plan of foreign trade turnover) from one which commands to a plan which presents conditions necessary for the maintenance of the equilibrium of economic development and presents plan parameters which are treated as being changeable, as well as to a plan which is developed within objective and/or purposeful systems, entails the necessity of a change of the entire regulatory system whose purpose it would be to assure the implementation of plan assumptions. From a point of view of interest to us, this denotes a change in relations between the central plan and foreign trade monopoly since it undermines the entire hitherto existing structure of implementing this monopoly by the foreign trade apparatus. Finally, a change in the managing of foreign exchange means which are derived from export, in the form of leaving a part of the revenues at the disposal of industrial trade enterprises and others, will essentially change the scope of managing export revenues by the supreme state administration organs, thus limiting the field of strategy of the Ministry of Finance in the area of the balance of payments.

All of these expected changes (which constitute the consequences of putting economic reform assumptions into effect) seem to justify the demand for a considerable expansion of the definition of foreign trade monopoly. Therefore, it is possible to accept the statement of J. Zawada that "by the concept of a state foreign trade monopoly, we understand...the socialization of that segment of the economic process which is represented by economic relations with foreign countries and the resulting exclusivity of rights of the socialist state for the management of the entire scope of matters connected with the development of these relations".<sup>6</sup>

How are the supreme organs of state administration supposed to insure the implementation of foreign trade monopoly, understood in such a way under conditions of economic reform and the existence of enterprises acting in accordance with the "three S" formula? In answering this question, it ought to be assumed that the key issue is insuring, through the activity of foreign trade monopoly, the implementation of assumptions of the central plan. Apart from the central economic plan, foreign trade monopoly would lose its "differentia specifica" and would become one of the forms of state interventionism implemented during the present century by many states regardless of their economic system.

The creation of new institutional forms for the purpose of insuring the functioning of foreign trade monopoly is all the more vital since, under reform conditions, the possibility of using foreign trade enterprises as transmitters which relay agreements of the central plan to the system of implementation of this monopoly will disappear. A few reasons are given here. First of all, the "three S" principle in relation to enterprises limits, to a considerable degree, the monopoly of foreign trade enterprises in the carrying on of exchange with foreign countries and, as can be expected, it will cause industrial enterprises to come out with proposals of a license for the carrying out of this activity. Secondly, foreign

trade enterprises will be forced to find new forms of activity in order to create conditions of interest on the part of domestic suppliers and buyers for the purpose of maintaining an exchange of specialized elements of the foreign trade apparatus.<sup>7</sup> Thus, these enterprises will, among other things, have to represent the interest of manufacturers who work in cooperation with them before the Ministry of Foreign Trade, and not the priorities of the central authorities before the manufacturers. Finally, foreign trade enterprises will, in accordance with the principle of self-financing, have to be ruled by the criterion of profit in their activity, which is impossible to reconcile with the fulfillment of administrative functions in the name of the Ministry of Foreign Trade.

A change in the position of foreign trade enterprises, in connection with a concept of foreign trade monopoly broad enough to conform to the conditions of reform and the current level of economic development in Poland, carries with it the necessity of the exact distribution of responsibility for the implementation of this monopoly among various state administrative organs and not only--as it follows from the papers prepared by Team VIII for Reform Matters--to highlight the role of the Ministry of Foreign Trade.<sup>8</sup> With this type of distribution of functions, it would be possible to properly establish the institutional forms of foreign trade monopoly with the assumption that: --the planning Commission of the Council of Ministers as well as the Ministry of Finance should be authorized to set the numerical values of parameters introduced into the central plan (such as the foreign exchange rate, the amortization rate, the tax rate, the discount rate at central banks, the level of foreign exchange allowances due to export, etc.); --influencing the directions of economic exchange and cooperation with foreign countries by means of investment outlays should be carried out through banks, in accordance with the general principles of acceptance of investments of economic organizations for financing from bank credit.<sup>9</sup> In order to account for the effect of a given investment on foreign trade, banks should either possess a rule which enables the assessment of this effect (by means of an investment efficacy account), or they should have at their disposal (for specific investment categories) an acceptance [draft] from the Ministry of Foreign Trade.<sup>10</sup> In the case of the obtaining of foreign exchange credit, the banks financing the investments should have, in addition, an acceptance from the bank servicing the foreign exchange turnover pertaining to the readiness to accept an investment for crediting on the basis of a separately carried out account of efficacy or a license issued by the Ministry of Foreign Trade or the Ministry of Finance.

The influencing of current foreign trade turnover should remain entirely within the jurisdiction of the Ministry of Foreign Trade through:

--a system of regulations (import and export licenses) aimed at economic units at whose expense export sales or import purchases are carried out;

--a reserve for the direct transaction--on behalf of the state--of contracts with suppliers of export commodities for the implementation of obligatory commitments resulting from trade agreements (above all with CEMA countries), in case such deliveries of supplies cannot be implemented under normal trade

conditions; this system could be partially refinanced from debts collected from importers if the level of import prices resulting from the transacted trade agreements would bring unwarranted profits to these importers;

--a tariff system (under the condition that the tariffs will constitute a price creating factor);

--authorization for the issuing and revoking of licenses for the carrying out of activity within the sphere of commodity trade turnover with foreign countries, if such licenses, for specific groups of enterprises, do not arise from normative acts of a higher order.<sup>11</sup>

The form of the institutional implementation of foreign trade monopoly outlined in such a way must find its reflection in the creation of an information system which would be suitable for it. In the conditions existing until now, there was no comprehensive information system for foreign trade which, in and of itself, placed a question mark on the credibility of monopoly activity. Information on commodity trade turnover with foreign countries came from the GUS [Main Office of Statistics] computerized system of foreign trade fed by enterprises in the form of so-called FE's [export invoices] and FI's [import invoices] as well as import-export licenses; information on economic cooperation with foreign countries was received from the GUS system fed by departments within the framework of form reporting; information on export production and the sale of commodities and services for export--from the branched out, industrial reporting GUS system; finally, information about payments and credits--from bank systems. All of these systems were not (and are not) interrelated either in concept or through the code base whereby, under conditions of reform, none of these systems--with the exception of the bank system--has a chance of surviving in its present form.

The presentation of the entire scope of the concept of a new solution to this problem exceeds, of course, the limits of this article. I would only like to stress here the particular indispensability of the coordinating role of the Ministry of Foreign Trade, which bases the entire information system in this sphere on such source documents as: export and import licenses, tariff documents, cooperation and specialization agreements, technical-economic assumptions (in the case of investments), survey research as well as agreed upon bank information systems.<sup>12</sup> The key role of the Ministry of Foreign Trade in the ensuring of the proper functioning of the foreign trade information system, including a computerized information system, becomes all the more vital as the decision-making process within this sphere is to become more decentralized. Under such conditions, the information system constitutes a basic form of feedback between planning decisions on a macro scale and their implementation which constitutes the result of atomized decisions of the real sphere. Translating this into the language of the present article--under such conditions, the information system becomes a supporting structure of foreign trade monopoly under conditions of reform.

# FOOTNOTES

1. "Kierunki Reformy Gospodarczej w Sferze Handlu Zagranicznego" [The Directions of Economic Reform within the Sphere of Foreign Trade], HANDEL ZAGRANICZNY, No 10/81
2. Some authors identified foreign trade monopoly directly with the treating of foreign trade enterprises as organs which assure the concentration of turnover in the hands of the state. For example, according to Z. Kamecki: "...In a socialist economy, the entire scope of economic turnover with foreign countries becomes directly concentrated in the hands of the state; through authorized organs, it [the state] alone conducts economic transactions with foreign countries. In other words, foreign trade monopoly exists here."--see Z. Kamecki, J. Soldaczuk, W. Sierpinski, "Miedzynarodowe Stosunki Ekonomiczne" [International Economic Relations], PWE [Polish Economic Publishers], Warsaw 1964, p 496.
3. In accordance with 1 of this decree: "The entire foreign trade is becoming nationalized. Trade contracts, with foreign countries and with particular trade enterprises a broad for the purchase and sale of all sorts of products (of the mining industry, the manufacturing industry and agriculture, etc.), are transacted in the name of the Russian Republic by organs which are expressly authorized to do this. Outside of these organs, all trade contracts with foreign countries for export and import are prohibited". Quoted from T. Lychowski, "Zagandienia Obrotu Miedzynarodowego" [Issues of International Trade], PWN [Polish Scientific Publishers], Warsaw 1954, p 249.
4. Ibid., p 250.
5. Compare, among others, J. Zieleniewski and S. Szczypiorski, "Zasady Organizacji i Techniki Handlu Zagranicznego" [Principles of Foreign Trade Organization and Techniques], PWE, Warsaw 1963, particularly pp 53-54; J. Soldaczuk, "Handel Miedzynarodowy" [International Trade], Wiedza Powszechna, Sarsaw 1967, pp 28-33.
6. J. Krynicki, Tom Kronsjo, Zbigniew Zawada, "Ekonomika Handlu Zagranicznego" [Economics of Foreign Trade], PWE, Warsaw 1972, p 274. In commenting on the above cited definition, Z. Zawada writes: "...this is not only a question of a simple statement of fact that the object of monopoly is various kinds and forms in which exchange relations of a country with foreign countries become implemented (commodity trade relations, service, finance-credit, individual and foreign-exchange relations). However, it is also a question of emphasizing that the state possesses an exclusive right to make decisions regarding organizational matters, institutional, economic, financial-foreign-exchange, accounting, cadre as well as other matters connected with managing foreign turnover. The concept of monopoly defined in such a way encompasses, therefore, the entire scope of the country's economic relations with foreign countries, from the objective as well as the subjective point of view." (ibid., p 275-276).

7. An example of this are attempts at giving a partnership form to these enterprises--see the discussion on this subject in RYNKI ZAGRANICZNE [Foreign Markets], which begins with the article by J. Szumski entitled, "A Moze Spolka z Organiczona Odpowiedzialnoscia?" [Maybe a Partnership with Limited REsponsibility?] (RYNKI ZAGRANICZNE 19 March 1981). At the same time, it should be emphasized that practical solutions have already gone way beyond the sphere of discussion.
8. For example, the already cited "Directions of Economic Reform within the Sphere of Foreign Trade" states, among other things, that: "The forms of implementing the principle of state monopoly of foreign trade will undergo a change in the direction of... concentrating the whole of trade policy, both in bilateral as well as multilateral relations, in one functional organ of state administration such as the Ministry of Foreign Trade." (HANDEL ZAGRANICZNY No 10/81). However, in this analysis, there is a lack of prominence of the role of the Ministry of Finance within the sphere of credit and foreign exchange policy and in the relation between foreign trade monopoly and investment processes under conditions of their financing from the enterprises' own funds and from NBP [Polish National Bank] and BGZ [Bank of Food Economy] credits, which is to be the basis for the new system of investments, etc.
9. This would not concern investments introduced into the central plan and financed from the state budget.
10. With such a solution, the Ministry of Foreign Trade should have its own Investment Evaluation Service which would study the effects of undertaking concrete investments for the future structure of foreign trade turnover and its effectiveness.
11. The entire sphere of treaties was left out here intentionally as totally without need of discussion and not arousing any controversy.
12. Information about the external environment from a study of foreign markets as well as prognoses for world economic development and prognoses for the development of techniques and technology constitute a separate issue.

9853

CSO: 2600/633

EMPLOYMENT STRUCTURE, LEVEL FOR 1982 ANALYZED

Warsaw RZECZPOSPOLITA in Polish 3, 4, 5 May 82

[3 May 82 p 4]

[Article by Ireneusz Sekula: "Level and Structure"]

[Text] Due to the radical change in economic conditions over previous years, it is very difficult to formulate an employment forecast for 1982. It is particularly difficult to foresee what course the economic crisis will take (in light of U.S. restrictions, for example).

Such factors as the economic autonomy of enterprises and the direction of the move for efficiency in making personnel decisions will have an impact on the level and structure of employment in 1982. A tendency toward the ossification of structures of the so-called administrative superstructure and the retaining of employees who do not have qualifications corresponding to new needs and the changing situation may also occur.

Under New Conditions

It is difficult today to make an accurate forecast of the reactions of enterprises to such phenomena as sluggishness in supply, uncertainty regarding import and coproduction, price changes and inflationary processes. Enterprises may either wait passively for an improvement in supply, while maintaining their previous production lines, or they may adjust rapidly to new conditions by changing their production and employment structure. Regional disproportions on the labor market represent another factor to be considered, taking into account labor resources and needs and the limited housing situation. There is also the pressure for making a living abroad.

Council of Ministers Resolution No 258, dated 11 December 1981, concerning the Central Socioeconomic Plan for 1982, defines the level and structure of employment. The level of employment in autonomous enterprises can only be estimated. These estimates may be inaccurate due to many changeable factors affecting the functioning of the economy.

Given these reservations, the Council of Ministers Planning Commission envisages that employment in the various sectors of the economy will have the following



structure: There will be an increase in employment in agriculture by 5,000 persons, in forestry by 10,000 persons, in transportation and communications by 17,000 persons, in the municipal and housing economy by 17,000 persons, in education and upbringing by 13,500 persons, in culture and the arts by 2,000 persons and in health protection and social care by 36,000 persons. Employment in industry should decline by 350,000 persons, on construction by 150,000, in technological science and development by 2,000 and in administration by approximately 5,000 persons.

#### Internal Shifts

It is likewise anticipated that the implementation of operational programs will bring about internal shifts in employment, increasing employment by approximately 100,000 persons in those subsectors embraced by these programs.

A total of 26,000 persons will find employment in new health service treatment facilities; basic rural and urban health care will employ 8,000 more full-time employees. Employment in repair plants and medical equipment factories should increase by 2,000 persons.

Rail transport should increase the number of those employed by 19,000 persons. An improvement in the quality of service rendered by the postal and telecommunications services necessitates an increase in employment by 5,000, and better service in banks and insurance agencies requires the employment of 2,000 more people.

The level of employment in January 1982 was nearly 250,000 less than during the same period last year. The decline was noted primarily in industry (150,000) and in construction (28,000). This is mainly the result of earlier retirement and the extension of educational leaves. This year as well, a significant part of the decline in the employment level will be the result of these two decisions.

#### The Complete Manning of Work Forces

This year, work forces for 107 central investments and other investments with an intended employment level of over 200 persons will be manned completely. This year, 22 investments will be put into operation, and 45 projects will be made operational in the next few years. In 40 plants that are already in operation, work forces will be supplemented until planned production capacities are attained. It is projected that these installations will employ approximately 27,000 people this year and 42,000 people during coming years.

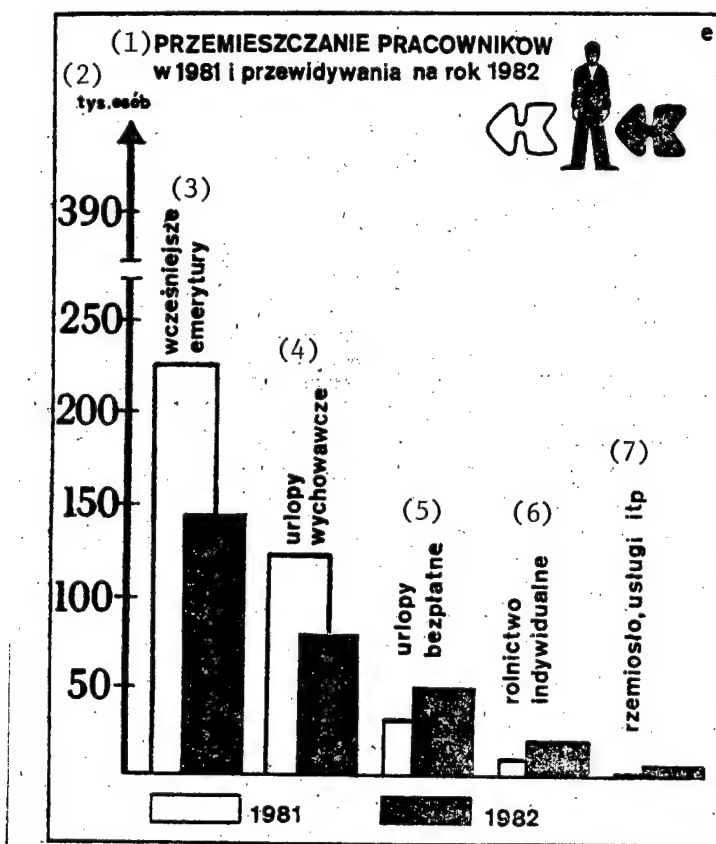
The employment of 7,000 workers is planned in 16 mining and power industry installations, and 22 metallurgy and machine industry plants will employ 8,000 workers. The chemical and light industry is to employ 5,000 in 20 installations, and agriculture and the food industry should employ 2,500 workers in 9 plants. At seven new investment projects of the construction and construction materials industry, 1,500 people will find employment.

The greatest number of new investments and the related employment increase in occurring in two voivodships, Katowice and Warsaw, in which the completion of 23 projects is anticipated.



The Ministry of Labor, Wages and Social Affairs will coordinate the activity of ministries and voivodship offices, especially in the area of transferring experienced and qualified employees. It is envisaged, however, that the complete manning of work forces should take place within the framework of the same ministry in a system of transfers from plants cutting back on the number of employees or plants that have been liquidated.

A fundamental condition for the complete manning of work forces will be to ensure apartments or living quarters for workers transferred from other voivodships and to create the appropriate social/daily living conditions.



Key:

- |   |                                      |
|---|--------------------------------------|
| 1. Employee transfer in 1981 and projected for 1982 | 4. educational leaves                |
| 2. in thousands of persons                          | 5. unpaid leaves                     |
| 3. early retirement                                 | 6. private farming                   |
|   | 7. handicraft, services and the like |

[4 May 82 p 6]

[Article by Irenuesz Sekula: "Work for Graduates"]

[Text] The Ministry of Science, Higher Education and Technology projects that 49,000 students should complete higher studies this year. Approximately 42,000 graduates will compete for work (since we have observed for several years that some students delay completing their studies). However, since another 8,000 graduates who were unemployed last year will be applying for work, 50,000 people will be competing for employment in 1982.

The largest group will be made up of graduates of higher technical schools (15,000) and graduates of all areas of study who are able to work in the teaching profession (11,000). It is projected that 5,000 students will graduate from medical schools, 6,000 will complete agricultural schools and 4,000 will graduate from economics schools.

While graduates have already announced their employment needs, work is ensured them only in public service (education, health, finances and the like), since positions and a wage fund have been designated toward this goal in the Central Socioeconomic Plan. Employment opportunities announced by work institutions are uncertain, since enterprises will be initiating reform this year, and only then will they determine the level of employment needed to complete production tasks.

#### A Shortage of Work Positions

Twenty-four thousand graduates will be able to find positions in public service. In education and upbringing units, 14,000 will find employment, and 5,500 will find jobs with the health service and in social care. While the need is greater than this, the number of persons completing studies in these fields this year is only as above. In culture and the arts, 1,500 graduates will find work, 800 will be employed in local administration, 600 in finances and insurance, and the same number in the administration of justice. The marine economy and sports and tourism will each employ 500 people.

In the sphere of materials production, 7,000 graduates may count on being employed in factories. These are primarily scholarship students who have made preliminary contracts with enterprises. It is estimated that 1,000 people will be employed by the nonsocialized economy, in private farming, handicrafts and in agencies.

Thus, it is projected that there will be work for 32,000 graduates. The shortage of positions mainly affects graduates in the fields of architecture, construction, electronics, basic problems of technology and chemistry. In particular fields, from 150 to 600 people will have problems finding work in their chosen professions. Graduates in all nonteaching fields and law and administration graduates will encounter the most difficulties.

There is a total shortage of 2,000 and 1,200 positions [unclear, T.N.]. There are no openings for about 1,500 economists and 1,300 graduates in agricultural fields, including veterinarians and zootechnicians. The greatest problems in

employing graduates will occur in Warsaw, Krakow, Wroclaw, Poznan, Lodz and Gdansk.

#### The Failure to Adapt Study Programs to Needs

The employment forecast for 1982 graduates confirms the failure of many fields of study to adapt to the current needs of the economy and public services. Efforts continue in the modernization of the system of employing graduates to develop an active labor exchange based on a system of incentives and preferential treatment for accepting positions outside of large urban centers. This system will guarantee the planned influx of personnel into public services, and it likewise offers incentives to enterprises that employ graduates.

About 10 percent of this year's graduates will have to earn additional qualifications this year which are indispensable for them to get work. Following the completion of postgraduate courses or study programs, approximately 3,000 to 4,000 graduates will be able to find work in ZUS [Social Security Agency] as social workers, as personal property insurance specialists in PZU [State Insurance Bureau] and "Warta," and in personnel and employment services. Besides this, graduates will give much more preference than in the past to the possibilities of being employed in production, in the nonsocialized economy and in services. Graduates who are fluent in foreign languages will be employed by organizations abroad.

#### Employment Abroad

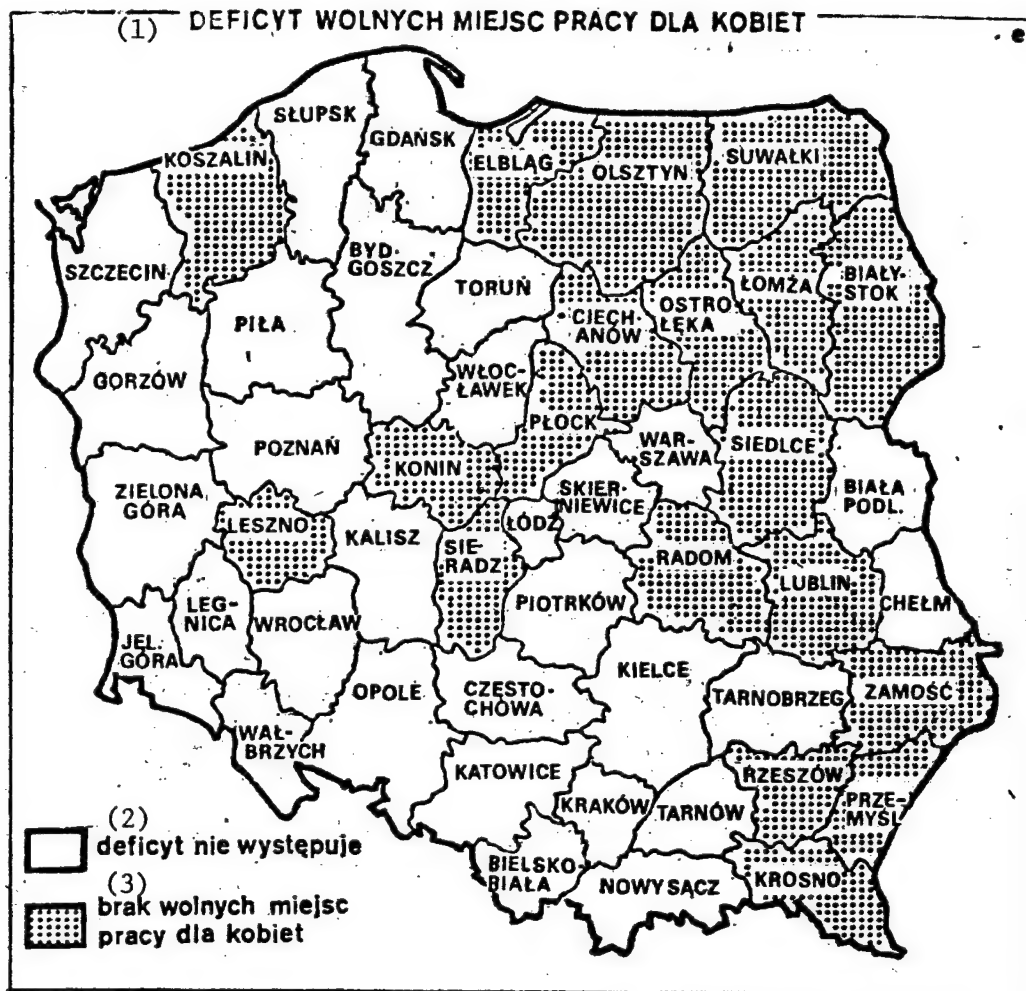
Approximately 84,600 people worked abroad at the end of 1981. Of these, 55,800 were employed in the exportation of construction and services, 14,800 worked under PHZ [Foreign Trade Enterprise] Polservice trade contracts, 8,300 were employed in GDR enterprises under a government agreement and on the basis of a ministerial understanding and 5,700 worked in CSRS enterprises.

The above data does not include employees sent to work abroad by institutions of the Ministry of Culture and Art, the Ministry of Sports and Tourism, the Ministry of Science and the Marine Economy and individuals who found employment abroad privately.

Activities are underway aimed at increasing the employment of Poles abroad in 1982 to approximately 105,000 to 110,000 persons. These activities are being conducted simultaneously with actions being taken to guarantee the protection of State interests--the potential of personnel and the promotion of foreign trade--as well as the guarantee of the protection of those working abroad in the field of legal protection, pension security and the like.

Diplomatic representatives and consular offices, as well as foreign trade institutions are studying the possibilities of employing Polish citizens abroad. Discussions on employment are being initiated at meeting of combined commissions and committees of Polish economic and scientific-technological cooperation with other countries. The appointment of an interministerial commission for employment affairs is planned. Its task will be to establish the directions and policy of cooperation with foreign countries in this field. The organization

of postgraduate study programs for approximately 100 specialists who are needed mainly in developing countries is likewise planned for the new academic year.



Key:

1. (Title) The Shortage of Openings for Women
2. no shortage
3. sporadic shortage of openings for women

[5 May 82 p 6]

[Article by Ireneusz Sekula: "Acquiring New Qualifications"]

[Text] A basic method for resolving employment problems this year should be the creation of positions everywhere that society's needs and cost effectiveness warrant such action.

For those people who are laid off permanently from socialized plants in 1982, various types of production and services establishments will be organized, such as:

- construction groups, primarily in rural areas, using local raw materials;
- construction material processing plants;
- broadly structured service repair plants;
- peat extraction;
- rural services, e.g., blacksmiths, agricultural machinery repair and the like;
- specialized work cooperatives for production, services and consultation primarily employing school graduates.

Those who are permanently laid off from plants will be steered primarily into trade and services centers. We expect to expand home milk and bread delivery and the like, and to increase employment in child care and upbringing institutions, in nurseries, preschools, youth clubs and social care institutions.

It is likewise being proposed that new positions be created of an interim and odd job nature, in which remuneration will be made immediately upon completion of the job.

One way of increasing employment in many neglected areas of daily living is the various forms of work primarily geared to women. These include: a shorter workday or workweek, with the number of hours established by the employee and the plant management, flex-time, contractual commissions and contract by the individual project.

We likewise foresee the possibility of freeing up positions for those who are unemployed by making agreements with pensioners, peasant-workers and other persons who have additional sources of income.

In many plants forced to limit production, a long-term program of reconstruction may be initiated, its implementation to begin with the shifting of employees from production into repair.

#### Changing Professions

The change in position openings will often be tied in with the necessity of acquiring a new profession. It is anticipated that this year workers who lose their jobs in the State administration, the economic administration and in associations, and employees in plants who are permanently laid off will have to be requalified, as will school graduates, in order to get their first jobs.

In over 2,000 schooling centers, approximately 1.7 million people can be re-trained yearly in occupational courses. This is the current potential at the disposal of schooling organizations.

The retraining of employees should be synchronized with the local needs of the labor market. One should be directed to take courses toward acquiring a new profession only if the offers he has are unsuited to his abilities.

For some time now, the training of employees has been conducted in such professions as:

- accountant, machinist, stock boy, buyer, postal assistant and c.o. [civil defense?] fireman serving the needs of plants in all subsectors;
- locksmith, lathe operator, welder, and machinist miller for factories;
- bricklayer, plasterer, carpenter, joiner, fitter of sewage equipment, tin-smith, roofer and paver for construction and municipal services;
- tailor, seamstress and knitter.

Training is being conducted in over 500 professions and specializations found in the nomenclature of professional schooling as well as in unique specializations.

Efforts are being initiated toward modernizing the system of upgrading the qualifications of workers along with introducing new principles of organization, planning, and financing. The system will likewise include new principles of paying teachers, as well as a modernized system of adjustments and benefits for employees who are taking courses.

#### Controlling the Labor Market

The economic reform assumptions give enterprises total freedom in setting up the level, the structure and the forms of employment, they create conditions for rationalizing employment, for eliminating overruns and firing unsuitable and unproductive workers. The autonomy of enterprises in the field of employment can bring about a work force surplus in local labor markets.

The first symptoms of this were already noted at the end of 1981. Dealing with these surpluses will be a basic task for the local service, which must alter its operational model and the principles of its work with plants, whose basis formerly was administrative-directive actions. Now this will have to be replaced with cooperation, counsel and various types of factors that have an economic impact.

The fund for occupational activation is such an economic instrument. It is possible in this way to have an impact on autonomous enterprises and to bring about the implementation of the desired employment policy, to organize substitute and interim work, to encourage transfers and retraining and ultimately to ensure protection against being unemployed.

#### Labor Mediation

The intensified passage of employees between particular elements of the national economy as envisaged within the framework of economic reform will necessitate

setting in motion various kinds of instruments aimed at stimulating the processes of occupational mobility and eliminating barriers. Labor consulting must mediate actively in this process.

In the past 2 years, 18 centers for occupational orientation and counseling have been opened in bureaus of employment and social affairs. Another 10 centers are to be opened this year.

Employment is not an independent structure, but a function of the economy; consequently, changes in employment cannot take place autonomously, but must be the result of changes in the economy. This requires imagination and patience. Autonomous enterprises need time to discern economic conditions.

These are processes that take many months, sometimes many years. This is why their effect can be permanent and stable, unlike the reductions ordered in past years.

8536

CSO: 2600/663

# ANTICIPATED RESULTS OF INCREASED INTEREST RATES

Zagreb VJESNIK in Serbo-Croatian 19 Jun 82 SEDAM DANA supplement p 4

[Article by Ante Zivkovic: "A Sobering Blow"]

[Text] Some of the commitments concerning interest rates on credit contained in the anti-inflation Program of the Commission of Federal Social Councils for Problems of Economic Stabilization were implemented even before that document was drafted. To go back, back in January of this year the Council of Governors [of the Yugoslav National Bank] adopted the decision to raise interest rates on credit extended from primary note issue. This was also an impetus for commercial banks to raise their interest rates on credit proportionally. At the same time, the commercial banks also introduced interest on the deposits of organizations of associated labor. Then in April came the decision of the Federal Executive Council to raise the rates of penalty interest for delinquent payers (to 25 percent), which more than doubled them.

There is no question that interest rates even in the past, when they were appreciably lower than the rise of prices, had a considerable impact on the business operation and business success of organizations of associated labor. The total interest which organizations of associated labor in the economy paid to the banks last year exceeded the fantastic sum of 128 billion dinars. It exceeded 8 percent of the income which organizations of associated labor earned last year. Over the last 5 years interest payments have ranged continuously between 7 and 8 percent of income. However, up to now rates of interest have as a rule been quite out of step with the rate of inflation. They have averaged between 4.8 and 6.6 percent, usually not reaching even half of the rise of prices. Which is to say that it has been lucrative to go into debt. It paid to take credit. The topsy-turvy logic of the lucrativeness of borrowing also carried over into the expenditure of the cheap money borrowed (a substantial part of which was for all practical purposes a gift), which was less than optimal.

That logic of cheap credit has had numerous consequences which are by no means pleasant. And the most obvious of them is that credit, debts that is, has been the basis for investment. Given these conditions, appetites were far greater than the available money. For a long time very expensive investment--the first payments too often come due even before construction is finished--was covered by new borrowing. Rather "cheap" credit with low rates of interest



were turned into very expensive investment. There simply was no real interest in faster turnover of money when interest rates were appreciably lower than the rate of inflation.

It is not normal for the level of interest rates to be out of parity with the rate of inflation, the document states. How abnormal that situation is is demonstrated by the situation in the last 2 years: average interest rates went as high as one-fourth of the rate of inflation if they went that high. Thanks to a number of deformations this generates, capital is transferred to those who are less successful.

That is why a stand was taken--as the program states--that the policy of negative rates of interest (lower than the rate of inflation) has to be abandoned in the long-range economic stabilization of the Yugoslav economy and normalization of the interest rate mechanism ensured.

On just two occasions in the last 5 years (1977 and 1978) the rate of interest which organizations of associated labor have paid on their credit lagged behind the growth of income. In the last 3 years, in spite of the low rate, the interest paid on credit increased faster than the income of the economy. Interest rates increased along with the rise of prices, though more slowly. With the significant changes in interest rates this year there is no doubt that interest payments on credit will increase still more.

This conclusion can be drawn both from the new rates of interest and also from the economy's hunger for new credit.

The rate of interest on monetization of securities has been raised from 6 to 12 percent. Credits covering export transactions have become three times as expensive--interest rates jumped from 1 to 4 percent. The price of credit to cover production and inventories of farm products has been doubled to 6 percent. Credits on commodity reserves rose from 6 to 8 percent, as did credits to cover stocks of coal. Credits are also more expensive for imports of raw materials (from 3 to 8 percent, and interest on credits to purchase domestic equipment within the country rose from 6 to 8 percent. The rate of interest on credit to maintain liquidity has risen from 8 to 12 percent. Thus from the beginning of February average interest rates on credits extended from primary note issue have risen from 3.15 to 6.68 percent.

It is estimated that relative to the planned amount of credit extended from primary note issue that the economy will this year pay another 7 billion dinars because of higher interest rates. The commercial banks will have the right to add to this interest of the National Bank a maximum of 1 percent, which also raises the price of credit.

In the Association of Yugoslav Banks they estimate that organizations of associated labor will this year pay an additional 23 billion dinars solely because of the higher rate of interest on so-called selective credit. This refers primarily to the price which the export sector of the economy and agriculture will be paying, though this contradicts the commitment that the terms and conditions for credit financing will not become worse in this medium-term period.

However, more purposive disposition of money also has its price. And this time it is worth paying it--in interest.

One of the premises of the anti-inflation program is that a sudden adaptation of interest rates to inflation, in view of the great difference between them, could be a powerful blow to the economy in the transitional period. This is all the more dangerous because it would occur at a time when the economy is already burdened with obligations arising out of the anti-inflation program. This would be a blow to the overindebted economy which many organizations would not be able to withstand. That is why in the years immediately ahead of us the emphasis is being put on reducing the rates of inflation.

Nevertheless, even in the transitional period, as efforts are being made to alter relations in credit financing, there still would be nominal changes in rates of interest, and specifically there would be an adjustment of the interest rate structure to the rate of inflation. That is to say that in the years immediately ahead of us we should anticipate upward changes of interest rates so that in the second phase of carrying out the program we would arrive at a system of interest rates which would basically be higher than the rate of inflation.

Even this year's higher rates of interest and payments on credit are compelling organizations of associated labor to seek opportunities of rationalizing their indebtedness and reducing the unnecessary and undesirable pressure to obtain credit. Until yesterday, for example, an organization of associated labor would take credit for working capital, paying the interest agreed on, while at the same time its banks would use without compensation the unused assets which the organization of associated labor has in its giro account to maintain its own liquidity. Thus indirectly the organization of associated labor would in a sense be paying interest on its own assets. Introduction of a current account--the proposed piece of legislation is already being prepared--would eliminate the indirect payment of interest on one's own money (through credit). It is also a question of creating conditions for use of one's own assets in the community consumption fund and reserves for working capital, when they are not for the moment committed, until the moment when they are spent for the purpose for which they have been appropriated. That is, up to now these funds have been set aside in separate accounts even when the organization was taking expensive credit to cover working capital.

In addition, there soon will be a reduction in appropriations for the solidarity fund of the banks, and a practical test is being made of speeding up the circulation of money by what is referred to as linked payment. Finally, the Executive Board of the Economic Chamber of Yugoslavia is supporting an initiative whereby internal banks would be given a more realistic position in the overall banking system so that they might make a contribution to more optimal use and circulation of the money of organizations of associated labor.

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## BRIEFS

NEW ELECTRIC CAPACITY--In Bitola work is being completed on construction of the first block, with a capacity of 310 megawatt hours, of the system of the Bitola Mining Electric Power Combine (REK). It is expected that the first kilowatts of electric power will flow from this significant Macedonian capacity during the second half of June. Also near completion is the installation of the 84-kilometer long 380-kilovolt powerline which will connect the Bitola REK with the Negotino Thermal Electric Power Plant. This is one of the essential conditions for inclusion of the first block of the thermal center in the electric power system. Work is also intensifying on construction of the second block of the same capacity, which is to be put into operation in 1983, and of the third block, for which more than 10 billion dinars will be invested. [Skopje Nova MAKEDONIJA in Macedonian 25 Jun 82 p 1] Elektromontaza in Ohrid has announced that the 380-kilovolt powerline connecting the power plants in Bitola and Negotino will be put into operation on 4 July. So far 76 kilometers of the total 84 kilometers have been completed. The entire power line will be completed in only 4 months, which is a record for Elektromontaza. [Skopje NOVA MAKEDONIJA in Macedonian 23 Jun 82 p 1]

MACEDONIAN EMPLOYMENT--Significant results have been achieved during the past period in the area of employment in Macedonia. The statistics show that the rate of employment exceeds that anticipated in the Resolution on Social and Economic Development and has increased by 3.6 percent, which is 1 percent more than planned. There are now more than 445,000 employed in the social sector and this number is constantly increasing. At the end of last year there were 435,378 employed. At the same time it was reported that for the first 5 months of this year in Macedonia productivity of labor has decreased by 1 percent, showing that greater commitment is needed by the workers in the work places for more efficient accomplishment of the assigned tasks, especially in the direct production process. [Excerpt] [Skopje NOVA MAKEDONIJA in Macedonian 23 Jun 82 p 1]

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